

AGENCY FOR  
INTERNATIONAL DEVELOPMENT



Congressional Presentation  
Fiscal Year 1996

BEST AVAILABLE



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

February 24, 1995

*The Administrator*

**TO THE CONGRESS OF THE UNITED STATES:**

On behalf of the U.S. Agency for International Development (USAID), I am pleased to transmit the Agency's request for authorization and appropriation for fiscal year 1996.

The U.S. foreign assistance program is a vital component of American foreign policy. USAID's activities directly advance America's national interests by promoting regional security, preventing crises, building markets for American exports and helping foster open governments and open markets around the globe.

I am proud that during the last two years USAID has been one of the lead agencies in the Vice President's National Performance Review. By announcing the closing of 27 missions, completing an agencywide rightsizing, reducing total staff by 1,200 and dramatically reducing project design time, the Agency is ensuring that it will be able to more effectively promote American national interests in the post-Cold War period.

Broad-based economic growth is the key to sustaining progress in the developing world. But lasting economic growth cannot be realized without democratic forms of government to ensure accountability, sound environmental stewardship to properly manage resources, and population growth rates that are stable enough not to undermine social and economic reforms. We believe that an integrated approach to development is fundamental to helping nations help themselves. As a result, USAID concentrates its efforts on five interrelated areas: encouraging broad-based economic growth, stabilizing population growth and improving human health, building democratic participation, protecting the environment, and providing humanitarian assistance.

This Congressional Presentation document provides the justification for, and detailed descriptions of, the Agency's programs and objectives. These descriptions include indicators of progress against which the success of the Agency's programs can be measured. USAID is committed to demonstrating results in every facet of its work.

I look forward to working with the Congress as you proceed to hear testimony and to mark up legislation to authorize and appropriate funds for these programs in fiscal year 1996.

  
Brian Atwood

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
FY 1996 CONGRESSIONAL PRESENTATION

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## INTRODUCTION

The U.S. Agency for International Development's (USAID's) FY 1996 Congressional Presentation (CP) reflects the Administration's program and budget justification for the bilateral foreign assistance program.

The CP document summarizes the budget request and discusses the programs and activities implemented through USAID's centrally funded programs and through the four geographic regions (Africa, Asia and the Near East, Europe and the New Independent States, and Latin America and the Caribbean).

Because the planning for achieving strategic objectives described in this presentation takes place so far in advance of the actual obligation of funds, some of the programs do not go forward as planned, new ones are added, and some undergo minor or substantial funding and program changes before agreements are reached with the recipient countries. In each instance, however the appropriate Congressional committees will be given 15 days notice before changes are effected, as required by the law. A **Statistical Annex** providing details for the USAID-managed programs will be provided following enactment of the FY 1996 appropriations.

A separate annex of **Summary Tables** is included with this Congressional Presentation. These tables and graphs illustrate the foreign assistance budget request for FY 1996 and provide a detailed tabular breakout of the foreign assistance budget for FY 1994 (actual), FY 1995 (estimate), and FY 1996 (request) for the entire International Affairs (Function 150) account.

## STATEMENT OF THE ADMINISTRATOR

### **A New USAID.**

I am pleased to submit this FY 1996 Congressional Presentation on behalf of a "reinvented" USAID. The Clinton Administration is making great strides to create a government that works better and costs less. USAID is a leader in this effort. We have focused our mission, eliminated 21 country programs, and pledged to close 6 more. We have eliminated 90 headquarters organizational units and reduced our staff by 10%. In FY 1996, we will introduce "reengineered" program management systems to increase efficiency in operations and to empower our field managers to deliver better results.

Why do these reforms matter? Because America's stake in a free and prosperous world community has never been greater. By the year 2000, four out of five people in the world will live in developing countries. Increasingly, our interests and our markets will be shaped by events in those countries.

America's security, prosperity and liberty cannot be preserved in isolation from the rest of the world community. The dramatic growth of global interdependence is accelerating, with the globalization of national economies, the spread of disease, common environmental threats, the internationalization of technology, and the cross-border flows of refugees.

We cannot simply wall out the chaos beyond our borders or ignore trends which will inevitably influence our security, our standard of living and our quality of life. We will pay a heavy price tomorrow if we turn our backs on these vulnerabilities today.

America cannot be called upon to singlehandedly finance global stability or economic revitalization. But we can, and we must, continue to provide the leadership necessary to promote our interests and defend our values. Such leadership requires a continuing commitment to the development of a prosperous and free community of nations.

### **Why Foreign Aid?**

Foreign aid is not just something we do for others, but something we do to preserve and protect American interests and values. Our children's future will be brighter and more humane in a world in which democratic values and sustainable economic opportunities are realized.

Sustainable development will create growing markets for American exports and diminish the causes of conflict and war. USAID supports our diplomatic efforts around the world, but goes beyond the representations to sovereign governments to address the conditions that put our interests at risk.

U.S. assistance cannot by itself assure the development of free democracies around the world in the next century, but it is an effective tool to create an environment for change. Working with American skills, talent and vision, USAID seeks to overcome disease, poverty, environmental degradation and ignorance to promote a more prosperous and peaceful world.

Building markets. The economic livelihood of Americans is increasingly dependent on global trade and international markets. And developing countries now constitute the fastest growing markets for U.S. exports. Between 1990 and 1993, exports to developing and transition nations grew by \$46 billion, supporting more than 900,000 new jobs in the United States.

USAID's development programs are helping to create tomorrow's markets today. By helping poor countries with institution building, training and technical assistance in all facets of their economic, political, social and environmental development, we are making sound investments which will pay handsome dividends in the next century.

Enhancing security. Our dividends are not just measured in expanded trade opportunities. Development assistance helps build stable, democratic partners. If we fail to treat the conditions that cause instability -- poor governance, chronic food shortages, environmental degradation, disease, illiteracy -- we will see ever increasing numbers of failed states and chaotic societies. Already, we are witnessing a staggering increase in humanitarian relief needs around the world -- needs that are increasingly caused by civil and political strife. Unless we work at preventing crises through development efforts, we will end up with the stark choice of either ignoring massive and chronic human suffering or paying a large and unnecessary price to provide stop-gap relief.

Solving Global Problems. The economic security and health of the American people are increasingly threatened by environmental degradation, population growth, and diseases that know no boundaries. The planet's biodiversity offers tremendous potential for developing new medicines and new crop varieties. The vast majority of this biodiversity is located in developing countries. Protecting this biodiversity means that we are preserving these opportunities for all future generations. The developing world is adding significantly to global climate change because of increased greenhouse gas emissions associated with energy inefficient industrialization, economic and agricultural activities (i.e., slash and burn agricultural practices), and deforestation. Global population growth exacerbates all of these threats and contributes to rising numbers of international refugees and migrants. HIV/AIDS and other deadly diseases cannot be stopped at home if we ignore their spread in other countries. USAID is supporting proven, cost-effective measures to address these global threats in key countries.

The cost of not acting -- of having to deal with the global impact and the cost of failed states and imploding societies -- will be far greater than the cost of effective action. Investment in development is an investment in prevention.

#### **Does Aid Make a Difference?**

Can development assistance make a difference? Are we achieving significant results? Are the resources spent on foreign assistance serving U.S. interests?

The facts show that developing nations have experienced enormous growth and development over the last 50 years:

- Per capita income in developing countries has doubled. They are now the fastest growing markets for American exports (up 49.8% between 1990 and 1993 alone).
- Infant and child death rates in the developing world have been reduced by 50% (10% in just the last eight years).
- Life expectancy in the developing world has risen 33%.
- The percentage of rural families in developing nations with access to safe drinking water has risen from less than 10% to almost 60%.

Has USAID made a difference?

- USAID assistance has spurred economic growth in many of today's big emerging export markets, including Egypt, Indonesia, and Thailand.
- 43 of today's top 50 importers of U.S. agricultural products were once U.S. foreign aid recipients.
- In the 28 countries with significant USAID family planning programs, the average number of children per family has dropped from 6.1 in the 1960s to 4.2 today.



-- More than one billion people in the developing world have food to eat thanks to agricultural research and development efforts led by USAID. Beyond the obvious humanitarian and economic impacts, the environmental benefits are enormous; in India alone, an additional one hundred million of acres of forested land would need to be cultivated if these productivity gains had not been made.

-- More than three million lives (mostly children) are saved every year through USAID immunization efforts.

-- With the help of USAID, 21,000 farm families in Honduras have been trained in improved land cultivation practices which have reduced soil erosion by 70,000 tons.

-- The United Nations Drinking Water Supply and Sanitation Decade, in which USAID played a major role, resulted in 1.3 billion people receiving safe drinking water sources, and 750 million people receiving sanitation for the first time.

Today, in the aftermath of the Cold War, USAID's successful programs in economic growth, democracy promotion, population and health, and environmental protection respond more than ever to key American interests abroad: building markets, enhancing security, and addressing global problems.

### **Can We Afford Foreign Aid?**

After World War II, the United States launched a remarkable bipartisan effort to rebuild war-torn Europe. Between 1946 and 1952, foreign aid consumed over 1.6% of our gross national product and over 10% of federal outlays -- a staggering order of magnitude much greater than today's effort. U.S. leadership and foreign aid secured real benefits of peace and prosperity for generations of Americans.

Today, America still provides leadership on economic and social development around the world, but with a vastly reduced share of our national income, both in absolute terms and compared to other donors. Other nations have increasingly shouldered their fair share of the international development burden. Other donor countries today devote on average 0.38% of gross domestic product (GDP) to foreign aid, while the United States devotes 0.15% of GDP. The average American family today contributes less to official development assistance than families in Japan, Germany, Britain, Austria, Sweden, Norway, Denmark, Spain, Belgium, Italy, Iceland, Ireland, New Zealand, Portugal, Switzerland, Netherlands, Finland, Canada, Australia and Luxembourg.

### **The USAID Approach.**

Broad-based economic growth is the key to development, but it cannot be sustained without parallel progress in democratic forms of government, environmental stewardship and manageable population growth rates. For this reason, USAID has concentrated its efforts on these five interrelated issues:

-- Economic growth. Broadly based economic growth is the linchpin of sustainable development. Strengthening markets, expanding individual access and opportunity and investing in peoples' education and health are all key elements in any strategy for sustainable economic growth.

-- Population. No country can succeed in making economic and social gains if population growth outstrips development gains. Even the most optimistic estimates suggest that the world population will double in the next century, with most of the growth occurring in developing countries. This will place unforeseen but profound stress on the environment, on the economies and the societies of all countries -- developed and developing.

-- Democracy. History has demonstrated that democracies are more peaceful, more prosperous, and less likely to suffer famines and other humanitarian crises than other forms of government. Open and participatory governments are inherently more accountable to the people.

-- Environment. Economic growth cannot be sustained if the natural resources on which that growth depends are irresponsibly depleted. Environmental challenges -- many of which directly affect U.S. interests -- must be pursued in tandem with economic and social development.

-- Humanitarian Assistance: A disaster can eradicate years of development progress in minutes. Civil conflicts can destroy social, political and economic institutions thereby setting the development process back immeasurably. Humanitarian assistance, therefore, is a critical component of our overall strategy to achieve sustainable development. Similarly, appropriate emergency relief measures, coupled where possible with development assistance programs, can help not only to save lives and alleviate suffering, but also to hasten the process of rehabilitation and reconstruction in affected countries.

Development assistance cannot be a substitute for a country's own efforts to improve the lives of its people. Aid can only be effective when we work in partnership. Aid dollars are likely to be wasted by governments which are not transparent, which refuse to decentralize and deregulate their economy, or which practice protectionism or state control over the economy. As part of our new strategic approach to management, USAID will no longer work with governments who are not prepared to be full and effective development partners.

#### **A More Effective USAID.**

USAID has undertaken the most extensive substantive and structural changes in its history. USAID is one of only two agencies to make the entire agency a laboratory for the Vice President's "Reinventing Government" effort. The experiment is working. We are closing USAID bilateral missions and programs. We have streamlined the organization and reduced staff. We are reengineering our programming process to manage for results.

Close-Outs. Recognizing that development assistance is not intended to be permanent -- nor to be made available to those not prepared to work with us toward common goals -- USAID is in the process of closing bilateral programs in 21 countries. All of these 21 will be closed by the end of FY1996. The closure of an additional six country programs was recently announced. This is the first time a country has "graduated" since the Republic of Korea in the 1970s. However, some programs were closed because USAID did not have a partner we could work with to achieve results. This is the first time in the history of USAID these types of decisions have been made.

Reorganization. We have completed this year a comprehensive reorganization and rightsizing of USAID's headquarters' operations and are beginning that process in overseas missions. The Washington reorganization resulted in the elimination of over 90 organizational units and established new interdependent organizational structures. Wherever possible, we have incorporated earlier reform and management recommendations, including almost all those included in the Report of the Presidential Commission on A.I.D. Management (the "Ferris Report") and 28 of the 30 recommendations set out in the 1992-1993 report of the joint Office of Management and Budget-USAID SWAT team.

Information Technology. In this fiscal year, we intend to begin operation of our new integrated, corporate information systems. This redesign of our accounting, procurement and budgeting systems will be fully operational in FY 1996 with a redesigned program operations system to follow closely thereafter. These reforms will enable USAID senior management to more carefully track resources and expenditures as they relate to results and objectives.

#### **Priorities for FY 1996.**

The President has requested a budget of \$7.65 billion for programs administered by USAID in FY 1996. We must maintain the momentum for internal reform during the year, consolidating our reorganization and automation investments, closing six more overseas missions beyond the 21 announced previously, and realizing the savings in costs and time produced by reform of our program processes. At the same time, we are committed to significant new program initiatives in the Horn of Africa and in the southern African region.

We will continue with high priority program commitments to support the restoration of democracy in Haiti, the consolidation of a pluralistic society in South Africa, the Middle East peace process in Egypt, Israel and Jordan, and the transition of Eastern Europe and the former Soviet Union states to democracy and free market governments and societies.

Our longer-term investments in solving global problems and promoting the sustainable development of less developed countries are paying dividends to America. We are determined to manage these programs to produce identifiable results for the taxpayer.

## **PROGRAM AND MANAGEMENT PERFORMANCE**

### **Introduction.**

The American people will agree that foreign assistance is an important and worthwhile use of taxpayers' dollars only if USAID demonstrates tangible results. To accomplish that goal we have spent the last two years transforming USAID into an agency that produces results the American taxpayer will support because they are in our nation's interest.

### **What Does Managing for Results Mean?**

The objectives of USAID's results-oriented management system are simple:

- greater concentration of resources in fewer countries -- with fewer but more significant and achievable objectives.
- better program management -- shifting from programs and countries where our activities are not contributing to the development outcomes we want and moving more of our resources into programs that produce measurable results.
- effective oversight of field activities, which will permit better and more precise reporting to the Congress and the public on what we are accomplishing with our resources.
- getting the best from our partners. Host government agencies and nongovernmental organizations, U.S. private voluntary groups, and contractors will be freed to focus on better methods to achieve results and less on red-tape and detailed, rigid procedures.

Our reform agenda alone will not give us the impact for which we strive. We must work closely with Congress to incorporate their concerns into our strategies.

In addition, we must develop more cooperative and collaborative relationships with other bilateral and multilateral donors, and with the private voluntary and nongovernmental organizations we work with in implementing our programs.

### **What is new?**

While USAID has always looked at project-based accomplishments, each project was assessed independently, primarily on its own merits. There was little assessment of experience across the Agency or cross-fertilization between programs and projects.

A results-driven framework has become the centerpiece of USAID's management. In the new USAID, we will more effectively manage pipelines, ensure our field programs contribute to agency objectives, and control resource allocation decisions.

The keystone of this framework is a continuous cycle of evaluation. Evaluations and reporting of results will now be an ongoing function throughout the life of an activity, and the conclusions of those evaluations will be better integrated into Agency policy decisions.

To better focus our resources for impact, we announced the closing of 21 missions. Some were countries we determined had "graduated" from the need for bilateral grant assistance. Others, however, were countries which were not good "development partners." These countries' poor political or economic policies prevented them from making effective use of our assistance. While assistance to these countries may have been provided for geo-political reasons during the Cold War era, we no

longer continue assistance where recipient governments are not willing to make the policy changes necessary to open up their economies and political systems to broad-based participation.

#### **What a Managing for Results System Looks Like.**

USAID has laid out its priorities in five interrelated strategies for sustainable development: protecting the environment, encouraging broad-based economic growth, stabilizing population growth and meeting human health needs, building democracy, and providing humanitarian and post-crisis transition assistance.

These strategies and our detailed implementation guidelines are the policy which directs each operating unit's selection of its strategic objectives and development of plans to achieve them. Approved strategic plans become a contract between bureau management and mission management.

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A strategic objective and its specific results target are expressed so we and our development partners will know when the result has been achieved. For example, one of the objectives in Ghana is to improve the quality of primary education, with the results target being a specific measurable increase in the percentage of school graduates who successfully pass the English and math standard achievement test.

Successful managers don't wait until the end of a strategic plan period to determine whether the intended results are achieved. They also set interim targets and check periodically on the progress being made along the way. To do so, USAID sets intermediate **program outcomes** -- measurable outcomes of one or more activities which, in turn, contribute to the overall strategic objective. Typically, a program outcome represents what USAID-supported activities expect to produce in 2 to 5 years as a necessary step to ensure the achievement of the longer-term objective.

Budget allocation decisions at all levels are made according to program performance. Performance reviews are held annually. Program performance will be monitored continuously at the mission level, and budget adjustments will be made based on a review of progress and results. Continuous reviews will also be done in Washington based on mission performance information.

Our reviews will include analyses of each country's performance on issues such as human rights. Country performance will influence not only the budget allocation process, but also will inform planning to establish new programs in individual countries or to close current programs. These country-by-country benchmarks will serve as the basis for our reporting on results to Congress.

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A **strategic objective** is a significant development result which can be achieved in five to eight years. Annual milestones will be established to ensure interim benchmarks are being achieved.

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#### **Management Reforms.**

We have undertaken a series of far-reaching management reforms to enhance our ability to manage for results. These reforms began last year and involve both Washington operations and those of our field missions. These reforms have enthusiastic support at all levels and throughout both USAID/Washington and its field missions.

The first management reform was to streamline USAID's organizational structure and better align it with the Agency's sustainable development mission. This reorganization was premised on the need

for all of us, in each bureau, to work together as one agency. We consolidated or eliminated four bureaus and 90 organizational units in Washington to facilitate this new cohesiveness.

One of the main features of the reorganization was the creation of the Bureau for Global Programs, Field Support and Research and its Centers which house most of the Agency's technical personnel. The Bureau's role is to upgrade our scientific and technical leadership, provide field support and technical input into our bilateral programs, direct global programs necessary for the accomplishment of Agency goals, and provide professional management to the Agency's technical cadre. The results of this reform effort are already being felt as we improve our development programs.

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To help track progress and ascertain ultimate results of strategic objectives, USAID uses two kinds of performance measures, or indicators. One set of indicators is used to monitor the results of the strategic objective itself. In the case of the Ghana primary education objective, for example, the portion of primary school graduates who pass the standard achievement test will be periodically reviewed during coming years. A second set of indicators is used to monitor the more immediate program outcomes and compare them to expected outcomes; this enables USAID and aid recipients to make adjustments in response to actual performance, e.g., by shifting resources to more effective activities or strengthening their design. In the Ghana case, USAID monitors the availability of key school materials, and the proportion of primary school teachers who have received specialized in-service training to improve teaching skills in four basic subjects, both of which are key components of the strategy.

In modifying internal planning and implementation procedures to focus on results management, we give field staff the authority and the responsibility to produce results and to encourage greater participation by our stakeholders and partners. USAID missions and offices are forming teams that include technical expertise (no matter where it resides), local development partners, and Washington and mission management to design and implement results packages within select strategic objectives.

The methods chosen by the operating unit for achieving each strategic objective will be flexible. We will become a "learning institution" where we learn from our successes and our mistakes as we go along. Mid-course corrections in activities and methods will be encouraged, when needed, to ensure achievement of objectives.

Another major effort, begun last year and continuing through 1996, is the development and implementation of new automated systems and processes, the cornerstone of

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which is the development of one corporate information system. The goal is to have one integrated system, accessible both in Washington and in the field missions, that will encompass all aspects of our operations, that will have one point of entry for all data, and that will be continuously updated to ensure accuracy and accountability regarding resources and the results those resources are achieving.

#### Program and Policy Directions.

Managing for results requires not only process improvements but also policy focus. While streamlining and improving USAID's management structure and program to focus on results, we have also reduced the number of objectives we try to manage, with a focus on sustainable development. Sustainable development means creating situations which allow countries to sustain themselves. USAID's programs address the four principal and interrelated threats to sustainable development: inefficient markets and lack of access to economic opportunity, rapid population growth and poor health, environmental degradation, and lack of democratic institutions and processes.

The major responsibility for achieving sustainable development lies with the developing country itself. To be successful, this effort requires partnerships among USAID, host government agencies and

nongovernmental organizations, other donors, and ordinary people in the countries where we work. While sustainable development cannot be achieved overnight, assistance is not an entitlement to be continued regardless of results.

Problems constraining a country's achievement of sustainable development are interrelated and solutions must also be interrelated. Progress in one or two areas cannot be continued without progress in other areas. While USAID articulates five strategies for achieving sustainable development, they must be implemented through an integrated approach. Objectives and activities will be designed, to the extent possible, to maximize their complementary impact on other programs.

A summary of what USAID is doing and the results we have achieved follows. It is organized around the sustainable development strategies. The funding used to implement these strategies and to achieve results encompasses more than just the Development Assistance Fund and the Development Fund for Africa. The Economic Support Fund is managed by USAID and is used as much as possible to further sustainable development goals. P.L. 480 Food for Peace resources are also integrated into country programs. P.L. 480 Title III, in particular, is used to foster food security. The International Disaster Assistance account and P.L. 480 Title II are the primary funding mechanisms for implementing humanitarian assistance and post-crisis transitions. These funds also are used to further our overall development goals.

#### **What will a results management system produce?**

USAID's goal is to help countries establish self-sustaining societies in which their people are free, economically productive and active participants.

In 1993, USAID announced the closure of 21 of its overseas missions, based primarily on two criteria. Either the country had "graduated" and was no longer in need of U.S. assistance or the country's government was a bad development partner, i.e., not interested in or capable of pursuing democratic and free market reforms. These closures represented the first time in USAID's history that assistance was withdrawn because development was impossible based on USAID's own criteria of producing results. It was also the first time since Korea in the late 1970s that countries were graduated from U.S. assistance based on their performance achieved with USAID assistance.

The following section covers five countries identified for graduation by the end of FY 1996. Selected examples of specific program results in each of these countries which led to their reaching sustainable development levels follow. All of these results are not directly tied to USAID's specific programs. However, USAID contributed to all of these results and the decisions here present a standard or index for future graduations.

**Costa Rica.** The USAID assistance program in Costa Rica spans half a century, ending in 1996. Costa Rica is poised to enter the 21st century as a strong and productive country with vibrant democratic institutions, increasingly free market policies, a rich human resource base capable of sustaining economic growth, and a heritage of ecological diversity and natural resource conservation.

- **Economic Growth:**

- After suffering a brief but sharp economic decline between 1980 and 1982, the economy has grown at an average annual rate of 4.5% and the unemployment rate has fallen from 9% to 4%.
- The incidence of poverty among households fell from 22% in 1988 to 17% in 1993.
- Total merchandise exports grew by 8.6% a year between 1983 and 1993 while nontraditional exports, the focus of most USAID efforts, grew by 12.7%.

-- USAID has provided private sector training for over 28,000 persons. Sample results include 45 participants from 39 companies where exports increased by 117% in the period following training.

- Environment:

-- USAID projects have reduced deforestation by 33% in the central volcanic range, an environmentally critical area, and helped develop better forest management policies.

- Health and Population:

-- USAID's assistance in reproductive health has contributed to a significant drop in the population growth rate from 2.8% in 1980 to 2.1% in 1993.

**Botswana.** Botswana is a functioning democracy with a freely elected government, a free and vocal press, an independent judiciary, and economic and social indicators among the best in Africa. U.S. assistance over more than 20 years has contributed to Botswana's status as a graduating country.

- Health and Population:

-- Botswana is among the top three sub-Saharan countries in terms of contraceptive usage and an associated decline in birth rates -- a 28% drop between 1981 and 1988.

-- U.S. assistance has led the Government of Botswana to develop substantial fiscal and technical responsibility for primary health care. USAID's emphasis on human resources development and programmatic improvements have resulted in:

- established nursing education programs that have expanded throughout not only Botswana but southern Africa;

- the delivery of integrated maternal and child health and family planning services which better meet clients' needs; and

- full financial and logistical responsibility by the government for procurement of family planning commodities and vaccines.

- Education:

-- Over the last 16 years, U.S. bilateral assistance has had a tremendous impact in the establishment of an educational system emphasizing access and quality which has become an educational showcase on the African continent.

-- Adult literacy is high at over 80%. Universal access to schools has been established through grade ten and both primary and junior secondary school attendance comprise more than 90% of the respective school-age populations.

-- Over 80% of the educators have been trained at various Botswana teacher training colleges constructed and equipped with USAID funds. Furthermore, 11 in-service education centers, each affiliated with a teacher college, have been established throughout the country to provide continuing assistance to teachers, especially in the rural areas. The regional in-service, education center concept has served as a model for many countries in Africa.



- **Natural Resources Management:**

- Botswana's wildlife policies represent a bold approach to conservation by placing direct control over resources in the hands of communities, thus creating economic incentives for sustainable use rather than perpetuating exploitative, short-term gain practices.

- Through USAID assistance, Botswana is demonstrating that local communities can manage resources of global importance, that benefits from conservation can accrue to rural populations most directly affected by these resources, and that a community-based approach empowers rural populations and encourages private enterprise.

- The resulting economic gains are producing a change in attitude and practice among rural populations and linking conservation with development. In 1993, through contracting with a safari company to hunt a small percentage of the hunting quota for the area, villages in one area earned \$12,000. Bids were again let the following year, and the village earned \$25,000. Most of the revenue is used for income-generating efforts within the community. The realization that increased animal populations bring future revenue has led to local decisions not to hunt the full quota.

**Tunisia.** In the four decades since independence, Tunisia's economy has blossomed from its tenuous beginnings into a regional showcase. Through its assistance in privatization and modernization of Tunisia's economy, in education, in health and in family planning, USAID can rightly claim that Tunisia's long-term success has been, in no small part, a result of its assistance. For example, Tunisia's gross domestic product (GDP) has grown from \$430 in 1961 to \$1,500 in 1991; its literacy rate has risen from 15% to 65% of the population; its life expectancy has risen from 47 to 68 years; and its population growth rate has been reduced from 3% to 2.2%.

- **Agriculture:**

- USAID projects have established and improved over 50 forestry nursery centers throughout Tunisia that have produced more than 40 million seedlings, beginning the process of "greening" Tunisia.

- USAID funded the research in animal feed and genetics which led to the purchase of U.S. heifer dairy and beef cattle and an increase in dairy and meat production.

- **Housing and Urban Development:**

- USAID provided sewer, water, streets and other improvements through the Mellassine upgrading project to 5,000 low-income families. The success of this project led to the Government of Tunisia adopting a policy for upgrading and rehabilitating impoverished communities.

- USAID funded the construction of 2,200 houses for low-income families and established a permanent capability whereby private developers now provide shelter for several thousand families.

**Thailand.** USAID's assistance to Thailand over the past 40 years has contributed significantly to that country's remarkable economic growth and the improvement in the quality of life of its citizens.

- **Economic Growth:**

- In the 1950s, Thailand's per capita income was well under \$100; today it is estimated at around \$1,800. In addition, USAID's specific focus on poverty alleviation in rural Thailand was a critical input in Thailand's successful suppression of its communist insurgency.

- Infrastructure projects during this period were critical for expanding government services outside Bangkok and provided the foundation for further development.

- U.S. assistance in agriculture, including the introduction of new varieties of rice, was critical to Thailand's transformation from a rice importer to successful exporter.

- **Health and Population:**

- Thailand's national family planning program stands out as a strong example of effective financial and technical assistance from USAID. In the past three decades, Thailand's contraceptive prevalence rose from 8% to 75% and overall fertility has fallen from 6.2 to a replacement level of 2.2.

- USAID began sending participants to the United States in 1952, and in February 1986, 40% of the 411 senior administrative positions in the Thai government were held by former USAID participants.

- **Democracy and Governance:**

- Finally, one of the best demonstrations of the impact of the U.S. aid program in Thailand has been the transformation of its institutions. For example, U.S. aid helped create the premier public administration training institution in Thailand where most of its civil servants are trained.

**Lesotho.** The USAID program has focused on two major areas: (1) increased agriculture production, diversification and marketing through the private sector; and (2) education and human resources development.

- **Economic Growth and Agriculture:**

- USAID has contributed to the sustainable use of rangeland resources by helping establish community-level grazing associations in designated range management areas (RMAs).

- There are now six RMAs in existence which cover nearly 186,000 hectares. They provide livelihood for an estimated 27,800 people. Measurements of range quality in the longest established RMA show a nearly three-quarter reduction in the surface exposed to erosion by rainfall and an increase in forage quality and quantity.

- Through the small-scale intensive agricultural project, the production of fruits and vegetables for home consumption has increased and nutrition in remote mountain areas improved.

- **Education:**

- USAID supports the Lesotho government strategy to improve quality of the country's education system, including the provision to all school children minimum standards of equipped classrooms, trained and motivated teachers, classes no larger than 50, sufficient books and materials, and schools that are well-managed.

-- Improvements in sectoral management of resources are being pursued through extensive on-the-job training, which has enabled the Ministry of Education's finance office to introduce cost-center-based budgeting for the next fiscal year.

## **MANAGING FOR RESULTS IN ACTION: EFFECTS ON PROGRAMS AND BUDGETS.**

### **Encouraging Broad-Based Growth.**

Economic growth is the foundation of sustainable development. Further, it is critical to progress in the other strategic areas. Economic growth that reduces poverty, enhances food security, brings improvements in basic health and education, and increases economic and income opportunities for all sectors of society serves U.S. security, economic and humanitarian interests. Accelerated economic growth in the developing world is key to expanding U.S. exports.

USAID's economic growth strategy focuses on:

- strengthening markets through policy and institutional reforms that improve their efficiency and performance;
- investing in people, mainly through improvements in basic health, education and training; and
- expanding access and opportunity through microenterprise lending, agricultural technology for small-holder farmers, policy and institutional interventions, and ensuring that these efforts benefit the poor, women, and disadvantaged groups.

### **Results.**

One of the most important developments, which could have global applicability, is the lessons learned from the work of Hernando de Soto's Institute for Liberty and Democracy, based in Lima, Peru. With financial backing from USAID, the Institute has been on the cutting edge in promoting the legalization of the informal sector as an essential component of broad-based and equitable economic growth.

In the case of Peru, some 340,000 enterprises have been formalized in recent years, generating \$300 million in new tax revenues to the government. De Soto argues that it is no accident that Peru, today, has the highest economic growth rate of any country in the world. By removing the obstacles to formalizing property rights and the registration of business enterprises, marginally performing assets become attractive investments once the security of that asset is codified in law.

USAID also is helping to privatize public enterprises and to increase production in specific markets, especially nontraditional exports. In Honduras, USAID helped privatize 43 state-owned enterprises, earning \$160 million for the Honduran treasury and reducing external debt by \$40 million.

Successful export enhancement was demonstrated in Ecuador by a program focused on a few commodities, none of which was previously a major export. About 4,000 smallholder farmers began producing passion fruit and pigeon peas for export. In two years, the prices paid to farmers for these commodities rose 50% to 300%. Of the 25,000 jobs created in the program, 60% were filled by women, resulting in reduced migration by women to cities.

In Egypt, where USAID has a significant focus on microenterprise and small business development, the number of small businesses and microenterprises receiving credit increased from 600 in 1991 to almost 16,000 in 1993. USAID microenterprise programs increasingly target women, who tend to have higher repayment rates than men and are more likely to spend enterprise income to improve family welfare.

In Bangladesh, USAID has generated economic opportunities for rural women through more than 27,000 loans. These loans have helped build many women-owned microenterprises, and incomes of borrowers now exceed incomes from agricultural labor by up to 300%, enabling many women and their families to move beyond abject poverty.

Poland was the first country in Eastern Europe to turn the corner, achieving a 3.8% growth rate in gross domestic product (GDP) in 1993 after several years of steep decline. Also in 1993, Albania achieved 11% GDP growth and Slovenia achieved 1% growth. In the Czech Republic, 65% of GDP now is produced in the private sector, while in Hungary, Poland, Russia, Slovakia, the Baltic countries and Albania 50% to 55% of GDP is produced in the private sector.

As part of its effort to help the Czech government convert from a command economy to a free market system, USAID has helped the Czech government close more than 120 deals with foreign investors, privatizing state-owned enterprises at prices more than three times those originally sought. The result has been in excess of \$2 billion paid into the National Property Fund and invested in the companies themselves -- a significant percentage of total foreign capital invested in the country during the past three years.

A component of USAID's community and enterprise development project in Senegal has successfully created a model for institutionalizing and replicating lending programs to urban-based, small-scale enterprises. As of August 1993, nearly 3,800 small-scale enterprises had received loans from the Private Enterprise Credit Agency, which had become Senegal's primary lender to small businesses. Close to 2,500 new jobs had been created and over 5,400 loans made. The Credit Agency has demonstrated the profit potential of lending to small enterprises. As of December 1993, it has shown a profit, net of donor assistance, for the last three consecutive years, and write-offs as a percentage of outstanding loan balances are down to 1%.

Most significant, sustainability of small-scale lending after project completion in December 1993 is being realized. In May 1993, institutionalization of the Private Enterprise Credit Agency as a profitable, private financial institution was officially and legally completed.

Indonesia's commercial code dates back to an 1860s Dutch code, with much of the law still written in Dutch. USAID is helping the Indonesian government to rewrite that code to reduce the barriers to private investment, increase transparency and decrease the risks and costs associated with business transactions. While the project was designed to help strengthen Indonesia's economic development, there is a clear link between a revised commercial code written in the American rather than the Dutch or Japanese image and American business's ability to compete in that market place. U.S. exports to Indonesia are expected to grow from \$3.3 billion in 1991 to over \$6 billion in the year 2000.

In Guatemala, USAID initiatives in trade policy reform and export diversification in nontraditional agricultural products have led to outstanding growth in exports -- averaging 64% annually since 1986 -- such that exports of these products reached \$666 million in 1994. It is estimated that these exports support more than 293,000 jobs, including more than 130,000 new jobs created as a result of this effort, primarily among the poorest 25% of the population. An increase in steady jobs has led to increased buying power. With the overwhelming preference being U.S. goods, U.S. exports to Guatemala have increased by an average of 19% annually since 1989, to reach more than \$1.3 billion in 1993.

USAID's five-year program in Uganda has helped diversify the country's economy, liberalize foreign exchange and agricultural marketing systems, and provide technical assistance to agribusiness firms and associations. As a result, the real value of nontraditional agricultural exports increased from \$8.1 million in 1987 to \$61.4 million in 1992 and farmer incomes have grown accordingly. Growers of silk, one of two new crops with tremendous potential, receive an annual revenue of \$456 per year, compared to Uganda's annual per capita income of \$165. Vanilla farming, also started with USAID

assistance, has increased steadily; participating producers -- 75% of whom are women -- saw their incomes rise 25% over the last several years. USAID efforts also opened the way for a private Ugandan firm to secure a contract with McCormick, the U.S. spice company. The firm paid farmers about six times the price they had received for vanilla in 1989 and tripled the number of producers with whom they work.

USAID has been the lead donor in rehabilitating Uganda's agriculture research network. Results linked to USAID's Manpower for Agricultural Development project have been impressive. Potato yields have increased 30% during the past three years; land planted in potatoes has increased from 4,000 hectares to 52,000 hectares. Potato farmer income has improved 20% over the same period. Other crops such as corn, cassava, sorghum and sunflowers show similar improvement.

### **Protecting the Environment.**

Environmental problems increasingly threaten the economic and political interests of the United States and the world at large. Degradation of rural and urban environments has led to increases in human illness, loss of economic productivity, and a reduced standard of living for countless people in the developing world. Environmental degradation in these countries also affects Americans directly through the loss of economically important biological diversity and rising levels of greenhouse gasses. We cannot escape the effects of global climate change, biodiversity loss, and resource depletion.

To address these problems, USAID pursues two strategic goals:

- Reducing long-term threats to the global environment, particularly loss of biodiversity and climate change.
- Promoting sustainable economic growth locally, nationally, and regionally by addressing environmental, economic, political, and developmental practices that impede development and are unsustainable.

Globally, USAID is focused on the growing sources and diminishing sinks of greenhouse gas emissions and on impoverishment of the planet's biological diversity at the genetic, species, and ecosystem levels. Programs focus on key countries where progress can have the greatest impact worldwide. Locally, USAID focuses on the impairment of human health due to air, water and soil contamination from industrial, agricultural, and household activity.

### **Results.**

USAID programs emphasize the long-term sustainability of protected areas. In 1994, USAID was a partner in more than 90 biodiversity activities in 40 countries. Through the Parks in Peril program, USAID support has led to the creation of 26 protected areas covering 5.6 million hectares in 12 countries. Noel Kempff Mercado park in Bolivia is one example. Lumber extraction has declined, takings of river turtles and their eggs have decreased, confiscation of illegal products is down 66%, and responsible "ecotourism" visits increased by 400% from 1992 to 1994. In the Philippines, debt-for-nature swaps have endowed a \$25 million environmental fund. Interest earned has financed over 100 projects by grass-roots environmental NGOs.

Conserving biodiversity also generates substantial economic benefits for local communities. In southern Africa, for example, USAID has supported a pioneering approach to wildlife conservation that empowers communities to manage -- and profit from -- wildlife tourism. In Zimbabwe, where the program began, local communities have earned over \$1 million per year from wildlife tourism, contributing to local economic development and generating local commitment to conservation.

*Natural Resource Management.* Growing concern over negative environmental impacts of agricultural practices led USAID to develop and promote new technologies to maintain or increase long-term productivity, and to involve farmers more directly and actively in the process. For example, in Honduras we are helping to transform destructive hillside cultivation practices and provide farm families with land-use technologies that decrease erosion and increase crop yields. The number of poor hillside-farming households adopting environmentally sound cultivation practices doubled to over 21,000 between 1989 and 1993, resulting in a reduction of 70,000 tons of soil lost to erosion. At the same time, half of the participating families increased their yields at least 30%.

USAID activities have decreased deforestation and promoted reforestation in several countries, planting millions of trees in private farmlands in Pakistan and fostering policy reforms in the management of public lands in the Philippines and Nepal. Farmers practicing integrated pest management methods, promoted by USAID in Indonesia, have achieved a one-third increase of returns compared to other farmers under similar conditions while reducing the cost and toxic contamination associated with chemical pesticide use. Pilot activities in coastal resources management have had major impacts through policy changes and participatory approaches in several countries. In Sri Lanka, USAID helped create a new planning system to control coastal erosion through set-back regulations and environmental impact assessments for any activity that may alter the coastal area.

*Urban and Industrial Pollution.* The benefits of urban and industrial development are increasingly offset by the high social costs of environmental problems. We are working to transfer U.S. domestic experience overseas, ranging from legal and policy changes at the national level to pollution audits for individual plants affecting particular neighborhoods.

USAID is supporting wastewater treatment projects in Egypt, Thailand, Indonesia, Jordan, India, Jamaica, and Honduras. In Egypt, the percentage of treated wastewater increased from 40% to 75%, reducing by 81,000 tons per year the pollutants entering the Nile, the sole source of water for most Egyptians. In Tunisia, a USAID pollution audit at a lead battery plant led the plant to invest \$8,000 in new equipment and to change its operating procedures. Operating costs dropped by \$770,000 per year and lead dust and lead-contaminated water emissions were cut by 60%. As news of this savings spread, other battery plants implemented the same changes without USAID assistance.

#### **Building Democracy.**

The conviction that democratic forms of governance offer citizens advantages and opportunities that no other form of government can provide has in recent years spread rapidly around the world. An impressive number of countries have made the transition to democracy in the past ten years, and more are struggling to do so. This transition has occurred through elections, expansion of political and civil liberties, and strengthened institutions of civil society that advocate for and represent citizens. Despite the progress made, democratic movements have been thwarted in many places and reversals have occurred. Many of the new democracies are fragile. Weak economic performance, low literacy, reluctant militaries, corruption and other factors threaten new democratic governments.

USAID's democracy strategy has five objectives, with specific programs tailored to country circumstances and available resources.

- strengthening the rule of law and respect for human rights;
- increasing citizen participation in political processes;
- expanding institutions of civil society;
- developing more accountable governance; and

- increasing the flow and diversity of information to citizens.

## Results.

The most recent Freedom House index, which groups countries according to a checklist of indicators for political and civil rights, classifies 60% of the world's people as living in "free" or "partly free" societies. Countries categorized as partly free are among those targeted for USAID assistance. They are still in need of some external assistance and the chance to consolidate the gains they have already made.

USAID played an important role in recent successful transitions in South Africa, Malawi, Mozambique and El Salvador. In South Africa, for example, we began to support NGOs and community groups in the mid-1980s. This led to more intensive work during recent elections on voter education, expanded political work by NGOs, training election observers, and strengthening the electoral commission. USAID's post-election program is focused on building respect for the rule of law, supporting good governance, and strengthening civic organizations as a check against future abuses of power.

In countries where the initial transition to democracy has occurred, we focus on consolidating democratic development. In Bolivia, USAID is working to improve the effectiveness and accountability of judicial systems and legislatures. In Namibia, one of Africa's newer democracies, USAID is encouraging more diverse representation in parliament and supporting civic education programs.

Success sometimes requires public and outspoken action. Corruption among top government officials in Zambia led the United States and other donors to reduce assistance until the government addressed the issue satisfactorily. Shortly afterward, the president fired the officials involved in the corruption, and in 1994 Parliament passed a code of conduct for government officials requiring financial disclosure statements. These actions addressed the problem, and the United States and other donors have restored assistance levels.

In the Ukraine, where USAID has provided support for the electoral commission and assisted political party development through regional seminars, the country held a free and fair election which resulted in an opposition candidate defeating the incumbent president and assuming office without unrest or serious election disputes.

In Bolivia, activities led to more viable institutions and broader political participation. As a result, USAID and the Government of Bolivia are collaborating in an effort to promote municipal government effectiveness and grassroots organizations by establishing new municipal boundaries which will encompass the entire country, allocating budgets on a per capita basis, thereby assuring a more equitable distribution of resources, and granting legal status and an enhanced role in local decision-making to grassroots organizations. USAID, with its Administration of Justice project, has the largest program and longest history of support for judicial reform in Bolivia and is collaborating with other donors, such as the World Bank and the Inter-American Development Bank, in this key aspect of strengthening democratic institutions. Evidence of successful reform was demonstrated by the prosecution and conviction of a former chief-of-state and several government officials for human rights abuses and narcotrafficking, the investigation of allegations of narcotrafficking charges against another administration, and the impeachment of two members of the Supreme Court. For the first time Bolivia has established an independent Ministry of Justice and budget resources for public defense. USAID is furthering human rights in Bolivia through its support to the Office of the Public Defenders, as well as its support of pilot activities through the Inter-American Bar Foundation to establish neighborhood conciliation centers.

Significant advances also were made in recent years with the Bolivian legislature, through USAID support to the State University of New York (SUNY). In addition to directly assisting the Bolivian Vice President in planning for carrying out his responsibilities as President of Congress, bicameral, non-

partisan, legislative support services were established. These support services have included a budget office, which provides accurate on-line fiscal information and expert financial analysis to the upper and lower House finance committees; a bill drafting service; and an information and research center to enable individual members as well as committees to improve the overall quality of draft legislation before it is presented to the floor.

In preparation for South Africa's history-making elections in April 1994, USAID provided support for the country's electoral process. USAID supported 90 separate voter education and documentation activities. The quality of the USAID-funded voter education programs through NGOs such as the Martin Luther King Center was recognized, accredited and utilized by the Independent Electoral Commission (IEC). As the election drew closer, USAID focused efforts on voters most likely to be victimized by intimidation, coercion and fraud -- illiterates, farm workers, women, disaffected youth, and residents in especially conservative or violence-prone areas. It is estimated that USAID-funded NGOs reached 3.6 million eligible voters by the time of the election.

Through a grant to a consortium of U.S. PVOs, USAID also assisted political parties which had not participated in previous elections in South Africa. The assistance developed their capacity to identify and address constituent needs, build effective campaign organizations, and campaign effectively. USAID supported the development of training materials for election monitors and the formulation of standards of conduct and criteria for free and fair election procedures. Local NGOs were strengthened in developing systems for gathering independent information on the conduct of the elections, and in organizing local election monitors and in coordinating local monitors with international observers. A USAID-financed grant to a U.S. PVO provided basic orientation and coordination of the several hundred election observers fielded by around 40 U.S. organizations.

USAID provided a wide range of support to the Electoral Commission to strengthen its election and polling processes. When the Electoral Commission decision to use a two-ballot system invalidated much of the voter education material which had already been produced, USAID funded a major effort to ensure that voters understood how the new mechanism would work. Ten million new sample ballots and new pamphlets were printed explaining the two-ballot system.

But elections would not have been possible without equally profound changes in civil society. Since 1992, USAID has supported local community and nongovernmental organizations engaged in promoting a culture of tolerance, with efforts ranging from training in negotiation and conflict-resolution to helping communities cope with the losses they have suffered as a result of violence. USAID also assisted the National Peace Accord Structures, including the Goldstone Commission. USAID resources just before the elections were used to address problems of violence in hostels, township communities, and sub-regions throughout South Africa.

### **Stabilizing World Population Growth and Protecting Human Health.**

Rapid population growth and poor health are inextricably linked to the other factors which keep nations poor. They are also closely associated with low status and limited rights for women. USAID's approach helps women to achieve their family-size goals through family planning and preventing the death of their children, and seeks to protect them from other reproductive health risks such as maternal mortality and sexually transmitted diseases. It supports women in making informed decisions through education.

USAID's strategy to stabilize population growth and protect health focuses on five priorities:

- preventing unintended pregnancies as well as abortions by increasing access to family planning information and services;



- reducing deaths from preventable diseases of children under five through improved child survival services and practices;
- decreasing women's deaths associated with childbirth through better access to improved obstetrical services and family planning;
- preventing illness and death from sexually transmitted diseases, especially HIV/AIDS, through increased access to information and services; and
- increasing the basic education of girls and women.

## Results.

USAID's technical leadership and support for country programs have contributed directly to dramatic results in lowered mortality and fertility and significant movement toward the goal of stabilizing the world's population. Annual world population growth dropped from 2% in the 1960s to 1.57% in the 1990s. This is the lowest growth rate since the 1940s and has occurred while fewer children are dying and people in general are living longer. Improvements in infant and child survival and achievement of desired smaller family size have occurred particularly rapidly in countries where USAID has concentrated its assistance.

*Family Planning.* In the 28 countries which have received the largest amount of USAID population assistance, average family size has decreased from 6.1 children in the 1960s to 4.2 in 1992. In five USAID-assisted countries, the percentage of couples using modern contraceptive methods has increased by an average of more than 2% a year since the late 1980s. In almost all other USAID-assisted countries for which we have recent data, average annual increases have exceeded 1%. These results are especially impressive since, because of population momentum, the number of women of reproductive age is still increasing. To simply maintain the same level of coverage, the number of people served must increase.

Ghana is a dramatic example of how USAID assistance contributes to national level changes. Without USAID assistance in the 1980s, there were few sources of family planning commodities or services. Family planning use is believed to have dropped to almost zero in the mid 1980s. Since USAID resumed its population assistance to Ghana in 1988, modern-method contraceptive use has doubled, and Ghana's contraceptive use rate, at 13%, is the highest in West Africa.

*Child Survival.* USAID is working with our partners to reach the international goal of reducing child mortality rates by one-third in this decade. Although the HIV/AIDS pandemic may be eroding previous gains in child survival in some African countries, overall there have been important improvements in child health in the past decade. Between 1985 and 1992, infant mortality declined by 10% in USAID-assisted countries. In some countries the decline was even greater, ranging from 17% in Bolivia to almost 50% in Honduras. During the same period, mortality rates for children under five dropped by 10% to 40%. In Egypt, child deaths before the age of five dropped from 130 per thousand in 1985 to 85 in 1990.

USAID also is contributing to increased immunization coverage. From 1980 to 1990, the percentage of children immunized against major preventable diseases increased from 20% to 80%. Worldwide, this saves the lives of an estimated 2.8 million children each year. In 1994, polio was eradicated in the Western Hemisphere by a multinational effort in which USAID was the lead donor.

In the 1970s, USAID was the chief supporter of research in Bangladesh which led to the development of oral rehydration therapy (ORT) to prevent deaths from diarrhea. With USAID assistance, use of ORT during diarrheal episodes among children continued to increase, from 12% in 1984 to 46% in 1992. This important treatment saves children's lives in the United States as well as in developing countries,

preventing an estimated one million deaths worldwide each year. It is only one example of positive impacts from USAID research investments.

*Maternal Health.* Of all health statistics, maternal mortality is the one that shows the greatest disparity between the developed and developing world. Asian, African and Haitian women are up to 200 times more likely to die as a result of pregnancy than women from industrialized countries.

USAID is working toward the worldwide goal of reducing maternal mortality by half by the year 2000. USAID-assisted demonstration projects in countries like Bolivia and Indonesia are showing that better care during pregnancy and delivery can save women's and babies' lives. In Bolivia, for example, a pilot project in 50 rural communities which focused on improved self-diagnosis of maternal and neonatal health problems, and referral and improved care for those with complications, reduced the deaths of babies under one month of age from 103 per thousand live births to 38.

*Preventing Sexually Transmitted Disease, Especially HIV/AIDS.* USAID is the leading bilateral donor in the provision of technical and other support for programs to prevent and treat sexually transmitted diseases. In Africa, where USAID has provided the most support, there has been a dramatic increase in knowledge of HIV/AIDS. The majority of adults can identify at least two effective methods of lessening the risk of contracting HIV/AIDS. In Thailand, USAID helped the national program slow the spread of the virus through a massive campaign directed at behavior change.

Thailand faces a pandemic in HIV/AIDS. As many as four to six million people could be infected by the year 2000. Thailand urgently needed a quick, inexpensive HIV diagnostic kit which would improve blood screening and increase early diagnosis. Through the U.S.-Thailand Development Partnership, USAID brought together American technology and a Thai company to produce a Thai-manufactured, rapid, easy-to-read screening test for HIV costing less than \$1.00 per test. The company USAID helped set up sold over one million tests in 1993 and projects sales of 2.5 million tests by 1996.

*Basic Education for Girls and Women.* Evidence from most developing countries shows a consistent correlation between women's education, desired family size, and the survival of their children. The data suggests that women with even modest levels of education are more likely to seek out and use preventive and curative health services. In most countries, better educated women desire smaller families and are better able to achieve their family planning goals. However, despite large increases in girls' primary school enrollment over the last two decades, girls and women in many USAID-assisted countries are clearly not yet receiving fully equitable educational opportunities.

In Egypt, where USAID helped build over 2,000 rural schools, girls' enrollment in first grade increased by 29% between 1981 and 1994 and the dropout rate decreased in higher grades. With USAID assistance, the Guinean government has focused on increasing girls' access to schooling. The program shifted teachers from the secondary to the primary level. Girls' gross enrollment rate in primary schools increased from 19% in 1989 to 23% in 1991, and the percentage of girls repeating grades decreased from 28% to 23%.

#### **Providing Humanitarian Assistance and Aiding Post-Crisis Transitions.**

As superpower tensions ease in the 1990s, religious and ethnic rivalries are leading to increasing numbers of armed conflict, widespread dislocation, death and suffering on a massive scale. These conflicts destroy social, political and economic institutions and set the development process back by decades. Natural disasters, too, erase years of progress in a matter of minutes.

USAID's humanitarian programs seek to save lives and reduce suffering in the face of disasters, to return individuals to self-sufficiency following disasters, and to establish conditions for countries to move toward sustainable development and democracy in the aftermath of crisis. In these efforts, we

work as partners with U.S. and local NGOs, United Nations organizations and the recipients themselves.

USAID has four objectives for its humanitarian assistance:

- timely delivery of disaster relief and short-term rehabilitation;
- preventing disasters and reducing the vulnerability of populations at risk;
- preserving the basic institutions of civil governance during periods of crisis and transition; and
- protecting the food security and health of vulnerable groups during conflicts or periods of reform.

### Results.

An example of how investments in early warning can save lives and be cost-effective took place in the Philippines in 1991. In April of that year, Mount Pinatubo began emitting ash and steam, a normal precursor to a volcanic eruption. Using equipment and technical expertise provided by USAID's Office of Foreign Disaster Assistance (OFDA) and the U.S. Geologic Survey, the Philippine Institute of Volcanology and Seismology monitored the volcanic activity. Based on early warning indicators, the Government of the Philippines ordered the evacuation of residents from a 20-mile radius of the mountain, and U.S. military personnel, dependents, and resources were withdrawn from Clark Air Force Base. At least 80,000 people were saved and an estimated \$1 billion in U.S. and Filipino assets were spared, due to the early warning investment and preemptive evacuation.

The drought that struck southern Africa during the 1991-1992 agricultural season had a devastating impact on agricultural production and placed an estimated 16 million people at risk of starvation. USAID missions reported the potential seriousness of crop failure early, and the early USAID intervention prevented widespread starvation. Unlike previous African droughts, food was delivered to needy populations before it became necessary for them to leave their homes in search of food. No major migrations occurred, and the formation of displaced persons camps was avoided, minimizing the costs of the relief operation and permitting agricultural rehabilitation to begin quickly once rain returned in late 1992.

By the end of 1993 more than 3,300 nationals in Latin America and the Caribbean have received OFDA disaster training. By training first-responders to disasters, the need for external intervention is decreased as local capabilities are strengthened and host country institutions can respond more quickly and effectively to disaster situations.

When a tropical storm hit Caracas, Venezuela in August 1993, for example, local authorities trained by OFDA were able to handle the response with minimal outside assistance. Due in part to investments in this and other disaster prevention, mitigation and preparedness programs, the total amount of U.S. Government expenditures for disasters in Latin America dropped from \$228 million for the five-year period (1984-1988) to \$40 million for the succeeding five-year period (1989-1993).

Greater attention is being placed on action that can be taken to prevent a drought or other disaster situation from becoming a crisis. For example, the USAID Administrator, at the request of the President, led a fact-finding mission to the greater Horn of Africa in 1994. As a result of the trip, the U.S. Government developed a regional food security strategy which is being implemented in collaboration with other donors and the governments and people of the region.

In 1994, the U.S. response to complex emergencies achieved significant results. In Bosnia-Herzegovina, USAID-provided food and other assistance helped prevent widespread death from starvation and exposure in the winter of 1993-1994. In Rwandan refugee camps in Zaire, the Department of Defense and USAID provided a potable water system that broke the back of a cholera epidemic among the camps' 800,000 inhabitants.

USAID's efforts to help prevent, mitigate, and prepare for disasters has paid big dividends. Early warning systems for famine (FEWS) and pestilence in Africa, and volcanoes elsewhere, have become increasingly effective in saving lives, property and rehabilitation costs. FEWS data and reporting across Africa have allowed donors and governments to target food aid to affected people more quickly. For example, in Malawi, FEWS staff helped the government to develop an effective food distribution schedule based on crop estimates.

Transition initiatives are extremely difficult due to the environments in which they take place. USAID support to Mozambique, however, helped that country emerge from 17 years of civil strife and the 1992 drought to hold free and fair multi-party elections in October 1994. Recent efforts to restore democracy in Haiti also have been promising.

Working through networks of private and voluntary organizations (PVOs) and government-to-government food aid programs in Mozambique and Ethiopia, USAID provided safety nets for vulnerable groups, kept farmers on their farms, and helped them keep farm tools and other assets until crises passed. The number of emergency food aid recipients has now dropped significantly in these countries. Emergency food aid provided a critical safety net for 26,000 people in Gaza and the West Bank during the transition to autonomous rule, to over 1.2 million vulnerable people in Haiti through its recent political crisis, and to 23,500 Guatemalan refugees who had fled to Mexico.

## SUMMARY OF BUDGET REQUEST

USAID will administer \$7.6 billion, or one-third, of the \$21.5 billion requested for the International Affairs (Function 150) budget for FY 1996. International Affairs represents just over one percent of the federal budget; the USAID request represents one half of one percent of the total federal budget. The budget narratives throughout this submission cover the full range of USAID-managed programs although some of the programs are requested through other agencies (food assistance under P.L. 480 through the budget of the U.S. Department of Agriculture - USDA) or are administered in coordination with the Department of State (Economic Support Funds and programs for Central and Eastern Europe and the New Independent States of the former Soviet Union).

The Department of State has prepared a summary volume to Congress which covers the entire International Affairs function organized by six major foreign policy objectives: Promoting Sustainable Development, Building Democracy, Promoting Peace, Providing Humanitarian Assistance, Promoting U.S. Prosperity, and Advancing Diplomacy. While this USAID submission deals only with USAID-managed programs, a table at the end of this summary explains where each program fits within the foreign policy structure used in the Department of State submission.

### FUNDING SUMMARY

For FY 1996, the President is requesting an appropriation of \$7,560,562,000<sup>1</sup> for USAID-administered programs, which compares to the FY 1995 level of \$7,337,835,000 that includes proposed rescissions and supplementals. The FY 1996 request includes funding for Development Assistance (DA), the Economic Support Fund (ESF), Assistance for Eastern Europe and the Baltic States, and Assistance for the New Independent States of the former Soviet Union. Also included are P.L. 480 Titles II and III administered by USAID, which are requested under the USDA budget submission.

#### A. Development Assistance

For Development Assistance, the FY 1996 request totals \$2,952,532,000, which compares to \$2,922,493,000 appropriated for FY 1995, plus a proposed FY 1995 supplemental of \$18,000,000. Development Assistance includes funding for the Development Assistance Fund (DAF), the Development Fund for Africa (DFA), International Disaster Assistance, credit guaranty subsidies and administration costs of credit programs, USAID and Inspector General Operating Expenses, as well as the Foreign Service Retirement and Disability Fund, a mandatory account which does not require authorization. Budget authority is requested to fund additional guaranty programs, including the Housing Guaranty Program and the Micro and Other Credit Guaranty programs.

Development Assistance activities are designed to promote sustainable development in some of the poorest countries in the world where there is a willingness to work toward bringing the poor into the mainstream of their economies.

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<sup>1</sup>This excludes \$47 million requested under International Narcotics Control for USAID-managed counternarcotics programs in Peru and Bolivia, and includes \$12 million of ESF for international criminal justice efforts managed by the Department of State. Taking those adjustments into account, the total for USAID-administered programs is \$7,595,562,000, as shown in the table at the end of this section.

1. Development Assistance Fund

The FY 1996 request for the Development Assistance Fund (DAF) is \$1,300,000,000, compared to the FY 1995 appropriation of \$1,301,402,000, plus a proposed FY 1995 supplemental of \$18,000,000. This request will support programs aimed at bringing the benefits of development to the poor in developing countries by promoting broad-based, self-sustaining economic growth and also is focused on initiatives to help stabilize population growth, protect the environment and foster increased democratic participation in developing countries; these objectives are interrelated and problems in any of four of these areas must be addressed in concert with one another if success is to be achieved. USAID's programs also are tailored to help solve the primary causes of underdevelopment in a particular country in concert with the host government and its citizens.

2. Development Fund for Africa

The FY 1996 DA request includes \$802,000,000 for the Development Fund for Africa (DFA), the same as the FY 1995 appropriation. The purpose behind the creation of the DFA, a single development account for Africa, was to focus and concentrate resources in a limited number of countries where they will be used most effectively and where management resources can be used as efficiently as possible. This has meant that bilateral programs have already been closed out in three African countries and USAID will be phasing out of six other African countries in FYs 1995 and 1996. Within the context of this performance-based budgeting, USAID has been able to meet the three 10% targets in health, population and natural resources management through a combination of DFA and central program funds. DFA resources finance both project and non-project assistance and have the same aims as noted above for the DAF programs.

3. Other Development Assistance Programs

- Agency Guaranty Programs include the Microenterprise and Other Credit Guaranty Programs, including a new Enhanced Credit Program, and the Housing Guaranty Program.
  - The Housing Guaranty Program extends guaranties to U.S. private investors who make loans to developing countries to assist them in formulating and executing sound housing and community development policies that meet the needs of lower-income groups. USAID is requesting \$16,760,000 in budget authority for loan subsidy costs, which will fund \$141,886,000 in guaranties, compared to \$155,500,000 in FY 1995. Also requested is \$7,240,000 for administrative costs, as required by credit reform. Use of permanent appropriation authority to pay claims costs is estimated at \$23,201,000 in FY 1996.
  - For Microenterprise and Other Credit Programs, in FY 1996 USAID requests \$12,000,000 for the subsidy cost of direct loans and loan guaranties, plus \$2,500,000 for related administrative costs. Of this amount, \$10,000,000 is for subsidy costs of a proposed new initiative, the Enhanced Credit Program, intended to guarantee \$105,007,000 in FY 1996 to increase the use of market rate loans and loan guaranties to promote USAID's development agenda. The remaining \$2,000,000 in subsidy costs for Micro and Small Enterprise Development program to finance \$33,873,000 in microenterprise guaranties and \$3,540,000 of direct loans in FY 1996, compared to \$26,824,000 in microenterprise guaranties and \$1,640,000 of direct loans in FY 1995.
- International Disaster Assistance funds are being requested at a level of \$200,000,000 for FY 1996 for emergency relief efforts and improving foreign countries' own disaster preparedness, mitigation, and prevention techniques and internal response capabilities, as well as for longer-term rehabilitation and recovery efforts, for countries emerging from man-made and long-term natural disasters, managed by the Office of Transition Initiatives. Funding for costs of assisting Iraqi Kurds, previously funded under the Department of Defense's Operation Provide Comfort, also is included in this request.

- Operating Expenses (OE) cover salaries and other support costs of USAID operations in Washington and at overseas locations, except for the Office of the Inspector General and the costs of administering the Agency's credit programs, which are budgeted separately. The OE request of \$529,000,000 for FY 1996 compares to an FY 1995 appropriation of \$517,500,000. The FY 1996 request of \$529,000,000 will support a total cost of operations for USAID in FY 1996 of \$580,388,000, the balance of funds being derived from local currency trust funds, reimbursements, and prior year recoveries carried forward to FY 1996. Total operating costs for FY 1995 are estimated to be \$597,585,000. While staffing levels have decreased somewhat and are projected to decrease further, the current funding request includes the short-term, up-front costs of closing out some country missions and implementing management reforms.
- Inspector General (IG) Operating Expenses cover the cost of domestic and overseas operations of USAID's Inspector General. USAID is requesting \$39,118,000 for IG Operating Expenses in FY 1996, the same as the FY 1995 level.
- The Foreign Service Retirement and Disability Fund (FSRDF), set at \$43,914,000 for FY 1996, covers mandatory costs of the unfunded liability associated with the inclusion of USAID career foreign service employees in the Fund, beginning in FY 1974. This compares to \$45,118,000 required for FY 1995.

#### **B. Economic Support Fund**

The Economic Support Fund (ESF) addresses economic and political foreign policy interests of the United States, in some cases related to military base rights or access rights agreements. To the extent feasible, the use of ESF conforms to the basic policy directions underlying Development Assistance. ESF can finance balance of payments and economic stabilization programs, frequently in a multi-donor context. Major ESF programs continue in Israel, Egypt, and Turkey.

The request level for ESF for FY 1996 is \$2,494,300,000, which includes \$12,000,000 for international criminal justice initiatives managed by the State Department. This compares to the FY 1995 level of \$2,450,900,000, which includes \$82,300,000 for a proposed FY 1995 supplemental request not yet enacted. The ESF request for USAID-managed programs includes \$220,500,000 for countries in transition such as Nicaragua, Haiti, and Cambodia, and \$2,261,800,000 for promoting peace, especially for Israel, Egypt, West Bank and Gaza, and Turkey, among others.

#### **C. International Narcotics Control**

Funding for USAID managed counter-narcotics programs in Bolivia and Peru, totaling \$47,000,000, is included in the State Department budget request for International Narcotics Control under Promoting Peace.

#### **D. Assistance for Central and Eastern Europe**

This program, established by the Support for Eastern European Democracy (SEED) Act of 1989, provides funding for the democratic evolution in Central and Eastern Europe. These funds support democracy and economic restructuring in Central and Eastern European countries, including the Baltic republics. For FY 1996, USAID is requesting a total of \$480,000,000. The FY 1995 appropriation included \$359,000,000 for this program.

#### **E. Assistance for the New Independent States of the Former Soviet Union**

Established by the FREEDOM Support Act, \$788,000,000 is requested in FY 1996 for Assistance to the New Independent States of the former Soviet Union, compared to the FY 1995 appropriation of \$719,400,000, excluding \$130,600,000 in transfers to other agencies. These funds support U.S. foreign policy goals of consolidating improved U.S. security, building a lasting partnership with the New Independent States and providing access to each other's markets, resources, and expertise.

**F. P.L. 480 Food for Peace and Other Food Programs**

USAID has the statutory authority to implement the P.L. 480 Title II and Title III grant Food for Peace programs, although funding for both programs is formally requested through the U.S. Department of Agriculture's budget submission. In addition, USAID is responsible for implementing the Farmer-to-Farmer program, a grant program to provide cash support to private voluntary organizations (PVOs) and cooperatives carrying out food aid programs, and for establishing a Food Aid Consultative Group with participation of PVOs.

Title II provides grant food aid for emergency programs, as well as regular programs sponsored by PVOs and the World Food Program to benefit needy people -- either by the direct distribution of the food or the use of local currencies generated by sale of the food in the recipient country. Budget authority requested for Title II in FY 1996 is \$795,700,000, which compares to \$821,100,000 appropriated in FY 1995.

The Title III grant program entails food assistance which is provided through governments of least developed or food deficit countries which meet specific eligibility criteria established in the 1990 legislation. The FY 1996 budget authority requested is \$50,000,000, which includes both commodity and transport costs. (This compares to \$67,500,000 appropriated for FY 1995 (including a rescission being proposed by the Administration).

The following table identifies USAID-managed accounts as they fit under the Administration's foreign policy objectives.



**FY 1996 REQUEST FOR USAID -- MANAGED PROGRAM ACCOUNTS**

**AND**

**ADMINISTRATION'S FOREIGN POLICY OBJECTIVES**

**Promoting Sustainable Development:**

Development Assistance Fund	\$ 1,300,000,000
Development Fund for Africa	802,000,000
Housing Guaranty Program -- subsidy and administrative costs	24,000,000
Microenterprise and Other Credit Programs -- subsidy and administrative costs	14,500,000
P.L. 480 Title III	50,000,000
Subtotal	\$ 2,190,500,000

**Building Democracy:**

Assistance for the New Independent States of the former Soviet Union	\$ 788,000,000
Assistance for Eastern Europe and the Baltics	480,000,000
Economic Support Funds -- Countries in Transition	220,500,000
Subtotal	\$ 1,488,500,000

**Promoting Peace:**

Economic Support Funds (see also Building Democracy above)	\$ 2,261,800,000	1/
International Narcotics Control	47,000,000	2/
Subtotal	\$ 2,308,800,000	

**Providing Humanitarian Assistance:**

International Disaster Assistance	\$ 200,000,000
P.L. 480 Title II	795,703,000
Subtotal	\$ 995,703,000

**Advancing Diplomacy:**

Operating Expenses	\$ 529,027,000
Inspector General Operating Expenses	39,118,000
Foreign Service Retirement and Disability Fund	43,914,000
Subtotal	\$ 612,059,000

**Total USAID -- Managed Programs** **\$ 7,595,562,000**

1/ ESF level shown excludes \$12 million for international criminal justice initiatives managed by the State Department.

2/ The International Narcotics Control figure reflects only the portion of the \$213 million request managed by USAID.

## **COUNTRY AND REGIONAL PROGRAMS**

**AFRICA**

**John F. Hicks  
Assistant Administrator  
Bureau for Africa**

## AFRICA

### INTRODUCTION.

Africa is the "final frontier" of development, both in terms of need and opportunity. In response to the changing realities of the world around us and evolving U.S. national interests, American foreign aid has shifted repeatedly over the decades -- from the Marshall Plan to rebuild Europe after World War II, to the Alliance for Progress initiated in the 1960s to develop Latin America, to significant infusions of aid to Southeast Asia in the 1970s. In 1987, recognizing the uniqueness of the development challenges in Africa, the Congress created the Development Fund for Africa (DFA). This bipartisan effort reflected the conviction that the United States has clear national interests in promoting broad-based, sustainable development in Africa, that aid to the continent is in keeping with our national values, and that progress could be made as a consequence of a sustained effort. The DFA required USAID to change the way it did business in Africa -- the countries we target, the types of aid we provide, and the manner in which we carry out our programs of assistance.

Today, USAID's efforts under the Development Fund for Africa (DFA) are making a difference in the lives of many Africans. USAID has focussed resources on the continent's most critical development problems and concentrated assistance in those countries committed to sound economic policies, good governance and democracy. As a consequence of this new approach and the political and economic reforms which have swept across Africa, we are making progress and achieving results. Just as our investments in Latin American and Asia over the past three decades are now reaping returns, USAID's assistance to Africa today is laying the foundation for expansion of U.S. exports and economic growth in the 21st century. However, Africa's progress is still fragile and could be reversed unless the United States is prepared to remain engaged on the continent over the coming decade.

The Administration is committed to maintaining resource levels to Africa that enable the United States to meet the challenges and seize the opportunities for sustainable development. The Administration's FY 96 request includes the following resources for Africa:

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Development Fund for Africa (DFA)	\$ 802,000,000*
Development Assistance (DA)	\$ 56,000,000
P.L. 480 Title II regular	\$ 103,858,000
P.L. 480 Title III	\$ 44,700,000
Economic Support Funds	\$ 24,350,000
<b>TOTAL PROPOSED RESOURCES</b>	<b>\$1,030,908,000</b>

\*includes \$30,685,000 of DFA resources for Africa Regional projects to be transferred to USAID's Global Bureau

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Proposed development aid to Africa accounts for one half of one tenth of one percent (0.05%) of the Federal budget. The investment amounts to less than \$4 by each American, or about \$2 for each African.

## **PROMOTING AFRICA'S DEVELOPMENT IS IN OUR NATIONAL INTEREST...**

Africa matters to the United States. Africa matters because of the huge potential of its people and its economies, potential that already creates jobs and exports for our nation. It matters because of the historic ties that bind our peoples...And it matters because the great global challenges of tomorrow...can be seen in the challenges facing Africa today.

President Bill Clinton, February 3, 1995

### **...Making Investments for the Future...**

Assisting Africa is in our **national economic interest**. USAID's investments in broad-based economic growth are helping **grow markets** for American goods and services. We are investing in our own economic future, as well as the future of Africa. Experience from both Asia and Latin America clearly demonstrates that the United States benefits directly from the economic expansion which our foreign aid helps fuel. In fact, we are already seeing U.S. exports expand in several African countries that have pursued sound policies and achieved economic growth.

With a total population of 560 million (1993), projected to grow to one billion by the year 2015, Africa has significant potential as a market for U.S. exports. In 1992, sub-Saharan Africa imported \$63 billion of merchandise goods from the world. From 1985-1992, African imports grew annually by about 7 percent. For the best performers, the expansion was closer to 11 percent. At the lower rate of 7 percent, the African market would amount to \$480 billion by 2025, which is approximately \$267 billion in today's dollars -- the size of the entire Japanese market in 1995.

In 1993, the U.S. exported goods and services valued at \$6 billion to sub-Saharan Africa, a volume which exceeded total American exports to the Commonwealth of Independent States by 20 percent. These exports represent tangible benefits to Americans; it is estimated that every \$1 billion of exports creates about 20,000 American jobs. At current growth rates, Africa would produce exports worth \$600 per American family in 2025. If we make the investments Africa needs, and African governments continue to implement the kind of sound economic policies that have fueled growth in Asia and Latin America, the return to each American family could be as much as \$2000 annually. These are significant returns on our development assistance investment. They represent millions of new jobs for our children and continued financial health for our nation and the world.

### **...Practicing Preventive Diplomacy...**

We also have a **strategic and financial interest** in assisting Africa to **prevent crises** before they arise. Although firm foundations for economic growth are being laid, much of Africa is living on the edge. Food security and agricultural-led growth is made tenuous by adverse agro-climatic conditions and volatile world prices for Africa's primary commodities. Ethnically diverse populations thrown together through the colonial occupation and limited experience with modern nation-building contribute to political instability.

Natural disasters like the Great Sahel Drought of the 1970s and the civil disorder in Rwanda and Somalia cause tremendous suffering and loss of life. They also impose heavy burdens on the international community because of the high cost of emergency relief provided in response to these tragedies.

Sustainable development can play a critical part in preventing these crises. Emergency relief is critical to address the symptoms of suffering and, as a caring nation, we will continue to offer such aid. But development assistance helps redress the root causes of crises and will ultimately save money.

## ...AND IS CONSISTENT WITH OUR NATIONAL VALUES.

Our assistance program to Africa also **reflects our national values**. Americans are a caring people, and our nation is premised on the philosophy that people should have the opportunity to make a better life for themselves. USAID's development assistance programs foster economic and political empowerment; we offer a helping hand, not a hand-out. Nowhere is the justification for foreign aid clearer and more compelling, in terms of our national values, than Africa.

Americans have also voiced their concern about the loss of Africa's unique biological diversity. The publicity surrounding African wildlife conservation highlights a more fundamental development challenge. Biodiversity is an invaluable source of natural capital for African societies and for the world at large. Stemming its loss is a global priority for USAID and a national-level priority in many of our country programs.

Finally, **Africa matters** to the United States because we have deep historical and cultural ties to the continent. With more than 25 million Americans of African descent, as a nation we have a special interest in Africa's development.

## AFRICA IS THE FINAL FRONTIER OF DEVELOPMENT...

Africa faces the greatest development challenges of any region of the world. According to the 1994 World Development Report, 19 of the 25 poorest countries, based on GNP per capita, are in Africa. Great strides have been made in Africa in the past twenty five years, but basic socio-economic indicators show that Africa's need for integrated development assistance is much greater than other continents'.

Indicator	Historical	Current	Current	
	Africa	Africa	LAC	Asia
GNP per capita	\$384 (1980)	\$340	\$2690	\$575
Life expectancy	48 yrs (1982)	52 yrs	68 yrs	65 yrs
Infant mortality	142/1000(1970)	99/1000	44/1000	62/1000
Child mortality	n/a	170/1000	57/1000	83/1000
Adult literacy	27% (1980)	50%	85%	63%
Primary school enroll	50% (1970)	66%	106%	104%
Secondary school	7% (1970)	18%	47%	45%
Annual Pop. growth	3.0% (80-85)	3.0%	2.0%	1.9%

There are several other challenges which make Africa unique:

- o HIV/AIDS infection rates are the highest in the world and are still rising in most African countries;
- o the continent is prone to drought because soil conditions are delicate, rainfall is more variable, and there is limited irrigation infrastructure;
- o because of Africa's agro-climatic diversity, there is no single, dominant food crop, so extensive agricultural technology development investments are required to achieve food security;

- o the cost of infrastructure investments is relatively higher because of Africa's large expenses and low population densities;
- o still in its first generation after colonization, Africa has limited experience with nation-building and modern democratic institutions;
- o the potential for political instability is higher because national boundaries drawn by colonial powers do not reflect the continent's tremendous ethnic diversity;
- o many countries have relatively large militaries which need to be downsized and demobilized and, in countries like Angola and Mozambique, extensive demining which must be done for successful political transitions and sustainable development;
- o the continent is more affected by the volatile world economy, suffering from a long-term downturn in commodity prices and capital movement; and
- o Africa has a growing debt, currently estimated at \$180 billion, which has a greater impact on sustainable economic growth than any other region: in 1993, external debt equalled 108% of sub-Saharan Africa's total GNP, compared to 40% in Latin America; scheduled debt service payments are almost 30% of export earnings and are projected to be much higher than Africa has been able to service in recent years; while little USG official debt remains, the fastest growing component of the external indebtedness of African countries is multilateral debt (including the IMF, World Bank and African Development Bank) which cannot be rescheduled or forgiven.

### **...BUT GOOD THINGS ARE HAPPENING.**

There is a clear need in Africa, but is there hope? Most definitely. Unfortunately, the headlines rarely report the many positive developments and success stories.

Political and economic changes have swept the continent in the last few years, enhancing the opportunities for growth and development. Nearly two-thirds of the countries in sub-Saharan Africa are consolidating their democracies or are in transition to a democratically-elected government. Africa's new leaders are committed to broadening participation and to undertaking reforms necessary for development. They are pursuing extensive economic restructuring programs, including privatization of state-owned enterprises, reducing government functions and budgets, stabilizing the economy, and deregulating so that the private sector can expand. U.S. development assistance is critical to support the successful political and economic transformations taking place across Africa. These changes will also enhance the use and impact of our aid. And, experience in Asia shows us that, if assistance is sustained, it will make a difference.

Africa is not significantly behind where some of the "Asian tigers" were thirty five years ago. For example, African per capita income is about 80 percent of what it was in Malaysia, Indonesia and Thailand in 1960. The structures of the economies are very similar, with agriculture the dominant sector and manufacturing accounting for only about 10 percent of GDP. Large infusions of development assistance to the Asian Tigers since 1960 have helped substantially reduce poverty, slow population growth, and increase literacy and education levels. They are now major players in the world economy. While significant aid was provided to Africa during the 1970s and 1980s, much of this was concentrated in a few countries which were not undertaking good economic policies or democratic governance but were considered strategically important in the Cold War context. Today, with the dramatic political and economic changes of the last five years, Africa has great potential for growth and development if sustained investments are made. In fact, our aid is already making a difference.

## USAID IS MAKING A DIFFERENCE IN AFRICA...

The Administration has five foreign policy goals in Africa:

- o supporting sustainable development;
- o alleviating suffering and hunger;
- o fostering democracy and respect for human rights;
- o promoting peace by preventing and resolving conflict; and
- o increasing American private sector involvement in Africa, as we seek to integrate Africa into the global economy.

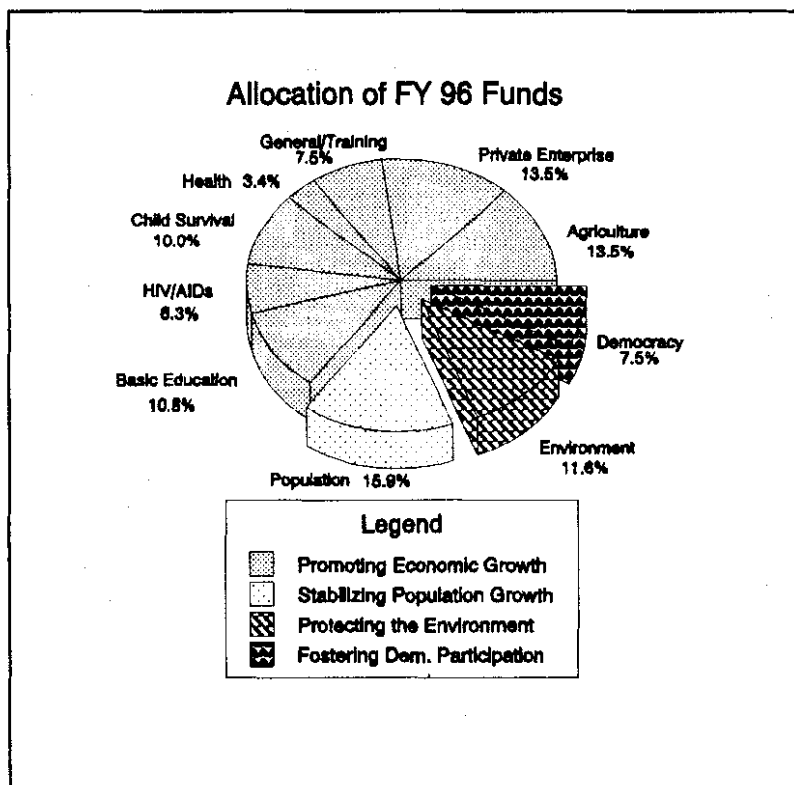
USAID's assistance program in Africa is one of the principal means of achieving these post-Cold War foreign policy goals.

Under the DFA, USAID has taken a longer-term approach to Africa's development; we are systematically addressing the root causes of underdevelopment -- economic, social and political. The Agency's sustainable development strategy represents an integrated approach to improve the well-being of the people of Africa, through:

- o promoting **broad-based economic growth with equity**, through smallholder agriculture and small enterprises, as well as complementary human development investments in education and health;
- o stabilizing **population growth**;
- o protecting the **environment**;
- o fostering **democracy and participation** in social and economic decision-making; and
- o structuring **emergency relief** to help nations make the transition from crisis to sustainable development.

The proposed FY 96 budget for Africa demonstrates this integrated approach and is responsive to Congressional targets. (see chart).

U.S. development assistance to Africa is making a difference because it is well focussed and well managed. USAID is seeing significant results in a number of areas...





### ...Progress in Promoting Broad-based Economic Growth

...through smallholder agriculture...

Since 1991, USAID's Agriculture Sector Assistance Program in **Malawi** has been instrumental in improving the incomes of 20,000 smallholder farmers that were formally prohibited from participating in Malawi's cash crop economy. As a result of conditioning our assistance on specific reforms, USAID was able to open up competitive private markets to smallholder farmers, thereby increasing annual farm incomes from \$200 to \$700.

As a result of the multidonor Program for the Restructuring of the Cereals Market in **Mali**, which USAID has supported through a combination of food aid and development assistance, the government has gotten out of price setting and marketing of grains. The sole remaining functions of the old grain marketing board are to maintain national food security stocks and provide market information to farmers. At the same time, ICRISAT, an international agricultural research center, developed higher yielding, drought resistant varieties of millet and sorghum under a USAID/Malawi grant. These investments have contributed to a steady increase in grain production since 1981, so that locally-produced grain available to the average Malian has nearly doubled, from 120 to 220 kilograms per year. This has improved both national and household food security and increased farm family income.

...through private enterprise...

USAID's private sector projects encourage private investment and growth of the economy, as well as generate income for Africans, typically through a combination of economic policy and financial sector reforms, provision of credit and business advisory services, and training of local entrepreneurs.

There is great potential for U.S. exports to countries like **Ghana** that are pursuing sound economic growth policies. American exports there expanded 73% between 1992-93, making the U.S. the third largest supplier after the United Kingdom and Nigeria. USAID's Trade and Investment Program has encouraged the Government of Ghana to adopt a revised investment code and registration system and to remove regulatory bottlenecks facing exporters, as well as helped improve export infrastructure. USAID's efforts are paying off: there has been a dramatic expansion of new businesses, with registration of new investments increasing from 200 in 1991 to an estimated 800 in 1994; and non-traditional exports have almost doubled in two years, from \$68 million in 1992 to \$114 million in 1994. It is expected that the program will generate 60,000 new jobs.

Under a similar USAID program in **Uganda**, non-traditional exports have increased six-fold since 1987.

In **Zimbabwe**, the USAID program strengthens the competitiveness of business, with special emphasis on small and medium enterprises. USAID's Business Development Project has also helped formulate anti-trust legislation, which lowers entry barriers for both local and foreign investors and exporters. U.S. companies have been among the more important investors in Zimbabwe since independence in 1980, including Heinz, Pioneer Hybrid, and Cummins Engines.

Many USAID private activities in Africa help develop income generating opportunities for the poor, as called for by the DFA. For example, during its first year of operation, the Regional Oils Project in **Tanzania** generated over \$1 million in rural income, created over 4000 seasonal jobs, provided secure markets for 10,000 oilseed growers, and generated additional profits for small-scale metal workshops and artisans who build the oilseed presses. The project is also underway in Zimbabwe and Uganda, and the oilpress technology is being extended to rural areas in Mozambique and Ethiopia, and black townships in South Africa.

...through rural infrastructure...

Rural roads are critical investments in development. In **Tanzania**, USAID encouraged the Government to privatize road construction and maintenance. Not only did costs decline, but the investments have helped raise rural incomes and improve access to markets and social services: traffic has increased over 30 percent; vehicle operating costs have been cut by one-third; transport fares and freights charges have declined 20 percent; and household incomes have increased 20 percent.

...through human development...

Strengthening Africa's workforce through improved health and better education are keys to promoting broad-based economic growth.

Excellent progress has been made in improving **child survival**. Working in concert with UNICEF and other donors to strengthen health service delivery systems, USAID support for expanded immunization and use of oral rehydration therapy are saving an estimated 800,000 African children each year.

In **Niger**, USAID's health sector support has improved the quality of health care and increased access. While fees were instituted to make the system sustainable, demand for both curative and preventive services increased, including a doubling of utilization by the poorest Nigeriens.

In **basic education**, USAID is working to improve primary education systems in Africa, focussing on increasing equity, access, and efficiency. In **Guinea**, which had one of the worst education systems in Africa, there have been dramatic progress through USAID's support: 1900 new classrooms have been built, with parents contributing 20 percent of construction costs; 2500 teachers have been shifted from secondary schools to primary schools and 7000 teachers have been retrained; first grade admissions have doubled and overall school attendance has increased 43 percent; government spending on education has expanded from 14 percent of the budget to 26 percent; and 80 percent of the primary school budget has been decentralized to local authorities.

One of the most significant trends in African development has been the enormous increase in well-educated, self-confident men and women across all areas of African life. There were only about 5,000 Africans with university degrees at independence. Since 1960, USAID has provided scholarships for over 16,750 Africans to receive **degree training** at U.S. universities. Almost 30,000 more have received short-term technical or non-degree training. Many of these people are and will be the leaders of Africa.

#### ...Progress in Stabilizing Population Growth

Many African countries are on the brink of a demographic transition. As the leading donor in family planning, USAID has been instrumental in these changes. Probably one of the most dramatic examples of a demographic transition that has ever been recorded is happening in **Kenya**. Total fertility rates--the number of children a woman could be expected to bear in her lifetime--dropped from 8.1 in 1977 to 5.4 in 1993. This historic drop in fertility is due mainly to increased use of modern methods of contraception. Dramatic progress has also been made in **Zimbabwe**, where USAID is by far the largest donor in family planning; total fertility has decreased from 6.5 in 1984 to 5.5 in 1988 to 4.4 in 1994.

In **Ghana**, contraceptive prevalence increased from under two percent in 1985 to fifteen percent by 1993. In **Tanzania**, levels of modern contraceptive use have doubled almost overnight, from six percent in 1992 to 12 percent in 1994.

### ...Progress in Protecting the Environment

Natural resources remain the foundation for economic growth in Africa. Across the region, USAID has invested heavily in innovative, community-based, natural resource management programs that raise rural incomes, protect the environment, and strengthen the role of communities in the economic and political life of their societies. Our support for community-based management of wildlife in **Southern Africa**, for example, has helped to shape a biodiversity conservation strategy with global applications.

**Mali** has made great strides in introducing policy and institutional changes in natural resources management. A growing number of communities now have greater authority to manage forestland, and farmers have adopted farming practices that are both more productive and environmentally sound. The result of these improvements has been increased yields and diversified cropping.

The natural resource base of **Madagascar** is seriously threatened by deforestation, soil erosion and associated declines in soil fertility. USAID, with other donors, is supporting Madagascar's Environmental Action Plan, one of the first in Africa. The goal is to save 3.6 million hectares, an area about the size of Maryland, by conserving biodiversity, improving the sustainable management of forests and national parks, and increasing income and employment opportunities for those living around the parks. This program is already having an impact. Farmers are learning new cultivation practices, and village committees are increasing environmental awareness and reducing illegal wood cutting. Villagers are benefitting through revenue sharing of national park entrance fees, income from sales of souvenirs and handicrafts, and job opportunities within the park. As a consequence, rural people are now seeing it in their interest to protect the environment.

### ...Progress in Fostering Democracy and Participation

USAID has also provided important assistance to the peaceful transition to and consolidation of democratic states and societies. While the sweeping political changes and democracy are an African phenomenon, coming from deep within a population tired of corrupt, dictatorial and ineffective authoritarian regimes, the United States has helped support the transformation; we have helped to empower ordinary Africans to add their voices to the process.

The history-making April 1994 elections in **South Africa** received strong support from USAID, where our decade-long program helped lay the foundation for the transition to democracy. The U.S. was the largest donor of electoral assistance, providing over \$35 million to strengthen the electoral process. It is estimated that voter education efforts, carried out by USAID-funded NGOs, reached 3.6 million eligible voters. When South Africa decided to use a two-ballot system, USAID funded ten million new sample ballots to explain the new system to voters.

USAID support to **Mozambique** bolsters both the economic and political steps that have brought that country back from the brink of disaster to the cusp of sustainable development. The successful October 1994 election was an important event in the transition to a democratic nation. USAID provided \$14 million to the United Nations Development Programme (UNDP) Electoral Trust Fund to finance training of election officials, civic education programs, and logistical support for registration and voting. As a result, 90 percent of registered voters went to the polls.

To support political stability and democratization, the U.S. has also provided valuable assistance to demobilizing troops in numerous African countries. In **Mozambique**, USAID funded transportation, basic supplies and health care as part of a comprehensive program to reintegrate into civilian life some 90,000 troops.<sup>1</sup> In **Uganda**, USAID facilitated the demobilization of almost 23,000 troops to date; another 10,000 are in the process of being demobilized.

The U.S. has also undergirded nation-building in Africa's two newest independent states -- Namibia and Eritrea -- through our sustainable development programs.

Similar to efforts here at home to reinvent government, USAID is helping Africa's new leaders make their governments smaller and more effective and give power back to the people, through: civil service reform and reductions; budget reductions and reallocations; privatization; deregulation; and decentralization.

### **...Progress in Preventing Crises**

The United States has played an important role in averting natural disasters, facilitating peaceful political transitions and rebuilding countries decimated by civil war.

Several clear successes in averting natural disasters stand out. First, following the **Sahel** famine of the early 1970s, African states and donors organized a famine early warning system, developed more drought-resistant grains, and liberalized agricultural markets. These investments have helped avert disaster in the arid, drought-prone Sahel in the two decades since. Secondly, in **Southern Africa**, an unprecedented drought in 1991-92 did not develop into a famine because of: an effective early warning system; the quick response of the United States and excellent donor collaboration in providing food aid; the highly developed regional transport infrastructure system; and effective coordination among countries in transborder food aid shipments. Moreover, in the wake of the drought, food production hit record highs in many of the Southern African countries, as a consequence of new agricultural technologies and liberalized markets. Thirdly, in the **Horn of Africa** last year, coordinated assessments and actions helped avert any major food shortages, and the U.S. is now developing with the host countries and major donors in the Horn a regional initiative to redress the root causes of food insecurity and instability.

The United States played a critical role in facilitating a number of peaceful political transitions which had the potential for political instability and crisis, including: **South Africa, Malawi, Zambia, Benin, Mali and Niger.**

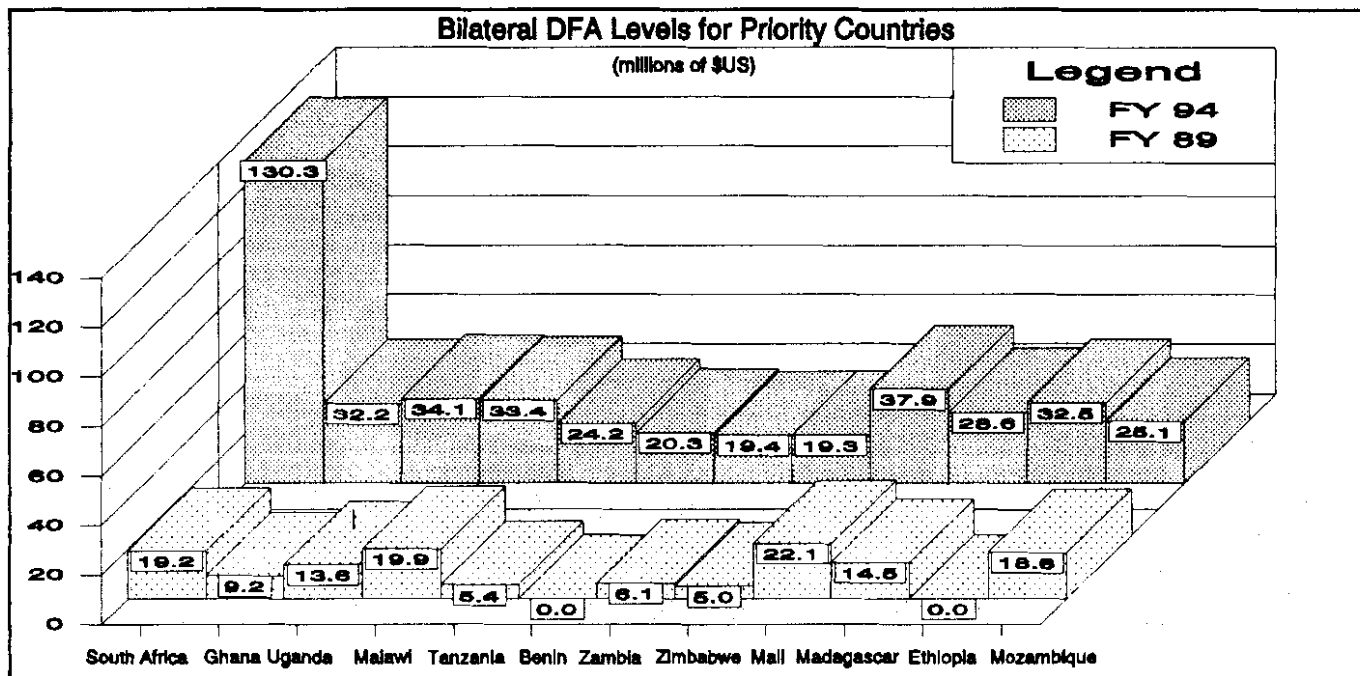
Furthermore, **Uganda, Mozambique and Ethiopia** offer hope as countries which have been brought back from the brink of self-destruction, through successful political transitions, economic stabilization, and initial growth which American efforts supported. The U.S. has funded the demining of roads and the country-side in Mozambique to enable refugees to return home and to facilitate economic recovery.

### **USAID IS DOING BUSINESS DIFFERENTLY IN AFRICA.**

The Development Fund for Africa has provided valuable flexibility and assured resources to address the continent's most critical development constraints. In response, in order to enhance the effectiveness of our aid programs, the Africa Bureau developed innovative programming, budgeting and evaluation systems. The principal beneficiaries of our development assistance have changed dramatically as the Agency shifted resources to where they would have the greatest development impact. USAID has also strengthened African participation and ownership in all aspects of our programs, and improved coordination with other donors. Many of the Agency's reforms under the current reinventing government effort were pioneered under the DFA and are now serving as models for the rest of USAID.

Performance Management Contracts. In 1990, the Africa Bureau initiated a new multi-year, strategic planning process. Field missions have entered into a "contract" with USAID/Washington to deliver a specific development impact based on a mutually-agreed level of financial and staff resources. As well, an annual assessment of program impact is undertaken. Successes and problems identified through mission monitoring and evaluation efforts enable USAID managers to make informed programming and budgeting decisions about what to replicate, reinforce or eliminate.

Performance-based Budgeting. To enhance the effectiveness and impact of U.S. development assistance, the Africa Bureau developed a performance-based budget (PBB) allocation system.



Not only is aid increased to reward positive change, but USAID has reduced or capped aid levels when a government falters on economic or political reforms. For example, the U.S. significantly cut aid to Malawi in FY 93 because the former regime stifled all democratic expression and human rights abuses were increasing. USAID also withheld aid to Zambia during FY 94 because of corruption in high offices. These actions, taken in concert with other donors at Consultative Group meetings, leveraged positive change: Malawi held free and fair multiparty elections, and the accused Zambian officials resigned under pressure. On the other hand, DFA aid to Kenya was reduced in FY 92 because of concerns about lack of respect for democratic freedoms and human rights, and it has been straight-lined since because of lack of substantial improvement. In the most severe cases, such as Togo and Cameroon, USAID closed field offices, and we are providing no new bilateral assistance because the host country was deemed a poor development partner.

**African Participation and Ownership.** A key principle of the DFA legislation, which has been reinforced by the Administration, is the importance of African participation and ownership. This is critical both to maximizing the impact of our assistance and to ensuring the sustainability of our development investments. As a consequence of viewing Africans as development partners rather than beneficiaries, USAID is doing business differently. We are aggressively soliciting a wide range of Africans and non-governmental organizations to participate in the design, implementation and evaluation of our country strategies and activities. This was a key element in developing USAID's new Initiative for Southern Africa and the Greater Horn of Africa Initiative. We are also pushing other donors to increasingly use the vast capacity of African talent in development of the continent.

The democratic changes in Africa provide fertile ground for linking the desires and efforts of both donors and African peoples to promote greater participation in development and strengthen African civil society. Both African non-governmental organizations (NGOs) and U.S. private voluntary organizations (PVOs) play a major role in design and implementing USAID-funded programs; their active participation in all aspects of our work helps ensure that our interventions are focussed on the most critical development constraints and enhances the sustainability of our investments.

Donor Coordination. The United States is not the largest donor to Africa, but we are clearly one of the most influential. The U.S. is the fifth largest donor (behind France, the European Community, the World Bank and Germany), providing about five percent of official donor assistance (ODA). However, in large part because of our in-country presence, the U.S. provides intellectual leadership within the donor community, and we commonly play a catalytic role in focussing resources on critical constraints to sustainable development: in the 1980s, unleashing private sector-led growth was an American innovation; and, in the 1990s, promoting participation and democratization have been American-inspired tenets of sustainable development. In addition to these ground-breaking initiatives, the U.S. has been the dominant donor in Africa in a number of areas, including family planning, basic education, the environment, and HIV/AIDS control and prevention.

USAID coordinates with other donors through a number of fora:

- o World Bank-led Consultative Group (CG) meetings;
- o UNDP-led Roundtables;
- o the Special Program of Assistance for Africa (SPA);
- o the Global Coalition for Africa (GCA);
- o Africa-wide sectoral fora (eg. Special Program for African Agricultural Research, Donors in African Education), and;
- o formal and informal coordination mechanisms at the country level.

These coordination mechanisms enable the U.S. to: influence the aid policies and programs of other donors; avoid duplication of assistance efforts; enhance the effectiveness of our aid; and leverage policy change from African governments. For example:

- o Under the SPA, USAID has worked with other donors to untie aid to the poorest countries in Africa; simplify procurement regulations; standardize donor accounting and auditing requirements; and improve African government budgeting and public accountability.
- o Among the major donors to Africa, USAID has taken the lead in strengthening African participation in the design and management of economic reform programs and in assessing the impact of political liberalization on economic reforms.
- o For SPA donors, USAID is also conducting studies on how to make adjustment programs more beneficial to the African poor and developing new ways to analyze and monitor poverty.
- o In the context of several recent CGs, the United States encouraged donors to take a united stand against government corruption and human rights abuses; in response to aid cuts, the African governments' practices improved markedly.

#### **BUT PROGRESS IS FRAGILE -- WE NEED TO STAY THE COURSE.**

Africa is at a crossroads in its history and development -- both politically and economically. Progress, while encouraging, is still fragile. The United States can make a difference through our development assistance program. If we maintain our commitment to a broad, integrated assistance strategy that redresses the root causes of Africa's underdevelopment, we can help prevent more countries from becoming a Rwanda or a Somalia, and we can help develop more countries like Ghana or Uganda. The proposed assistance program to Africa is a sound investment -- in improving the lives of millions of Africans, in strengthening our own economic future, and in bettering the world we will leave our children and grandchildren.

## ANGOLA

**FY 1996 Economic Support Funds Request (Country in Transition) . . . . . \$10,000,000**

Angola is a large, mineral rich country of approximately 10.5 million inhabitants strategically situated along the Atlantic coast in southwestern Africa. It is roughly the size of Texas, California and Florida combined. Under more normal circumstances, the country's mineral wealth, combined with foreign private investment and a modicum of development assistance from donors, would permit sufficient economic growth to generate a steady increase in the standard of living of its citizens. Unfortunately, circumstances have been far from normal. War has ravaged Angola since the mid 1960s. In September 1994 the United Nations estimated the total number of Angolans affected by civil unrest and drought at 3,664,000. In addition, there were over 300,000 Angolan refugees in neighboring countries.

It is in the national interest of the United States to support activities that will bring lasting peace and prosperity to Angola. Until a durable peace accord is implemented, the Government of Angola (GOA) will not be able to commit the energy and resources necessary to meet the massive humanitarian needs of its people, stimulate the national economy or develop fledgling democratic institutions. U.S. commercial opportunities will lag and the current security threat to existing U.S. petroleum facilities will continue. USAID's development assistance program to Angola began in 1992. It was suspended in 1993 due to a deterioration in security conditions and subsequently terminated in 1994. USAID continued to provide humanitarian and emergency relief to Angola on a major scale through its Office of Foreign Disaster Assistance (OFDA). Last year alone, for example, the United States provided \$89.9 million in emergency relief assistance that was directly associated with the latest hostilities.

Despite the endemic warfare, U.S. oil companies have continued to invest in Angola's petroleum pumping, refining and storage facilities. Cumulative U.S. investments in oil extraction there are now estimated at about \$2.5 billion. Annual exports of Angolan petroleum products to the United States in recent years have ranged between \$1.7 billion and \$2.3 billion. Other valuable minerals available for commercial exploitation once civil strife ceases definitively include diamonds, iron ore, manganese and copper. In addition, Angola possesses large tracts of land suitable for agricultural and livestock production, vast forests, rich coastal fishing grounds and considerable hydroelectric energy potential.

### **The Development Challenge.**

While oil exports currently generate sufficient revenues to provide the country with a per capita income of about \$600, most indicators of social and economic performance rank Angola among the poorest countries in the world. The relatively low performance ranking is largely explained by three factors: (a) incessant warfare, which has made life in the countryside too insecure for agricultural production and transport, required heavy military expenditures, and destroyed a substantial part of the economic and physical infrastructure; (b) severe human resources constraints, due to a massive exodus of Portuguese settlers at independence and resulting skill shortages that the country has not been able to replace; and (c) highly inefficient economic management with excessive reliance on central planning and pervasive administrative controls.

As a consequence of these factors, Angola, which was formerly an important net exporter of agricultural products, has become increasingly dependent on food imports (and food aid) to supply its urban markets and camps for the displaced. There are severe shortages of essential consumer goods and services throughout the country. Marketing infrastructure and rural trading systems have been devastated. There is a shortage of trained personnel in all sectors. The concentration of war-displaced populations in various rural and urban fringe areas is a contributing factor to environmental degradation.



As peace returns, economic policy management must move rapidly to the forefront of GOA priorities. Angola needs to recover not only from the war, but also from the paternalistic approach to economic management that was inherited from the colonial era. In order to jump start the economy and set it on the path to sustainable growth, it has to shift from state-controlled economic policies to an open market-oriented economy. After three decades of devastating war characterized by authoritarian regimes and statist economic policies, the road ahead is long. With an abundant natural resource base, however, Angola's long-term economic potential is promising. The extent to which the country succeeds will depend overwhelmingly on the nature of the economic policies that the GOA elects to pursue.

With the recent signing of the Lusaka Accords, peace seems to be possible. Until peace becomes a reality, however, the GOA will not be able to commit the energy and resources required to meet the massive needs of a citizenry too long deprived of the most basic necessities.

### **Strategic Objectives (SOs).**

A USAID/State Department mission visited Angola in December 1994 to begin formulating an integrated strategy for future U.S. assistance to Angola. One of the team's conclusions is that emergency humanitarian programs will likely remain the primary element of U.S. assistance to Angola during 1995. Angola is one of three USAID country programs designated to support countries in transition. USAID is reviewing plans for a transition program consisting of the two activities described below. The basic approach will be one of "wait and see." As the Lusaka peace process advances, OFDA will initiate \$3 - \$4 million in grants to non-government organizations (NGOs) for services to housing areas for demobilized troops. In addition, USAID's Office of Transition Initiatives (OTI) would be authorized to commit a total of \$3 - \$4 million to technical support for the demobilization and reintegration process. Then, assuming continued progress in implementing the peace, there could be a \$10 - \$15 million per year development program, stretching over approximately five years.

### **BUILDING DEMOCRACY (\$4,000,000).**

**SO 1. Promote Angola's transition from a wartime footing to a stable, peaceful and democratic society (\$4,000,000).**

Activities. One of the principal components of the transition process will be a democracy/governance program that would be carried out by U.S. NGOs such as the International Republican Institute and the National Democratic Institute to provide support for the National Assembly and training for trainers concerning the basic tenants of democracy, grass roots governance, and the functioning of free market economic systems. Included would be such basic themes as how to design and carry out free and fair elections at the local and district levels, installation of conflict resolution bodies at the local level to implement the policy of national reconciliation, training regarding the role of the press in monitoring and safeguarding basic human rights, constitutional guarantees concerning freedom of the press, the rights of free speech and assembly, enhancing the status of women, and so forth. In addition, recognized authorities would be sent to Angola to study and make recommendations on subjects such as the legal and regulatory system.

Establishing respect for the rule of law and human rights within the framework of a strong and participatory civil society will be another special concern. The role of an independent judiciary is considered to be key to progress in this area. Thus, funding would be employed for technical assistance to enhance the independence and professional quality of the judiciary, and for training in human rights and investigative techniques within the judiciary and Ministry of Justice. To assist the reform effort from the outside, a portion of this amount would be used for training and technical support to indigenous NGOs working to promote human rights and legal reform. An additional amount would support creation of a human rights ombudsman network throughout the country. The ombudsmen would serve as facilitators to ensure that human rights cases do not languish in the judicial

system. In addition, the policy of national reconciliation will require the extension of government administrative authority to areas previously under UNITA military control. The possibility of disputes and conflicts that could undermine the peace process is very real. Consequently, locally-based conflict resolution bodies established in conjunction with churches and local NGOs would provide much-needed mechanisms to defuse tensions and help Angola heal its wounds. Finally, some funding would promote a participatory civil society through enhancing the status of women by funding NGO projects to promote women's education and legal aid projects.

For the purpose of establishing a representative and accountable legislature, U.S. assistance is proposed for long-term institutional support for the National Assembly. Specifically, funds would provide technical assistance and training on a non-partisan basis to enhance the policy analysis and legislative skills of parliamentarians, to instruct members of Parliament on the role of parties and on coalition-building, and to develop effective parliamentary committees.

Indicators. As the proposed project has not yet been designed, indicators have not been developed. For the follow-on democracy/governance/free market initiatives, potential measures of performance would include the number of Angolan parliamentarians participating in invitational tours of the U.S. and state legislatures, the number of trainers trained in democratic/free market concepts, the number and variety of studies conducted on the judicial and regulatory system and the nature and extent of report recommendations enacted into the legal and regulatory framework, together with an assessment of the potential impact. Objectively verifiable indicators for a stronger, more independent judiciary could include the courts' successful pursuit of human rights and official corruption cases. NGOs and churches taking a stronger role in administering conflict resolution bodies at the local level, together with a measurable decrease in violent conflicts are measures that could be employed to measure the success of local conflict resolution accompanying the extension of the national government into former opposition territories. The increase in attendance of school age girls in the public school system would be one possible measure of the success of programs focused on enhancing the status of women.

Feasibility and Cost-effectiveness. Similar activities have been successfully carried out elsewhere, most notably in nearby Mozambique, another Lusophone country with a similar post independence background and cultural heritage. The costs would be considerably less than the relief assistance currently being provided to a much larger number of displaced persons and refugees, whose levels would decline precipitously should the peace process continue to the point where demobilization becomes a reality.

Progress in 1993-1994. Activities proposed are still in the design stage.

Donor Coordination. PVOs from the UK and Norway, together with others from Italy, Portugal and the United States would manage the programs designed to reintegrate the ex-combatants into society.

Constraints. While the peace process outlined in the Lusaka Accords has continued to move forward, suspicion and disagreements between the opposing factions could delay or even derail the momentum achieved thus far. At present, for example, continued progress needs to be demonstrated in strengthening the ceasefire, resolving outstanding military issues and permitting UN military observers to verify and monitor the peace. Appreciable anti-democratic and statist economic management is still present in Angolan society and may resist reforms in these areas.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$6,000,000).**

### **SO 2. Assist with the rehabilitation, stabilization and growth of the Angolan economy (\$6,000,000).**

After three decades of incessant warfare, the economic and social infrastructure has been devastated. However, in many instances, the clearing of land mines and the rehabilitation of infrastructure appears to be a relatively rapid and cost effective alternative for getting the economy and basic public services,

such as rural health care, moving again. In Mozambique, for example, rehabilitation of basic infrastructure such as roads and bridges has resulted in the rapid resumption of economic activity. In some cases, annual economic growth has mushroomed as high as 20% per year there.

In addition, the GOA has recognized the seriousness of its economic problems for some time, but chose not to attempt sweeping reform in the midst of the civil war. Management of the economy was typically on a short-term emergency basis. The appointment of a market-oriented economic reform team by the GOA late in 1994 indicates an awareness of the need for reform.

However, a structural adjustment program for Angola will almost certainly require a commitment on the part of the GOA to sustainable, broad-based, market-oriented economic development in which the private sector plays a key role. The program would require both the continuous support of the country's leading politicians together with the technical capacity to collect and analyze the necessary data and formulate appropriate economic policies. Such a capability currently does not exist in Angola. The country has neither the analytic capability nor the information base upon which to formulate the appropriate policy alternatives. Nonetheless, the economic reform process has begun already as demonstrated by the sharp reduction in inflation from 1,800% in 1993 to an estimated 700% in 1994.

Activities. Resources would be devoted to short-term economic stability efforts concentrated on the four provinces most adversely affected by the civil war -- Uige, Malange, Bie and Huambo. This assistance would dovetail with U.N. plans for demobilization and reintegration of former combatants and the repatriation of Angola's displaced and refugee populations. Through an umbrella grant, support will be provided for revitalizing communities devastated by the war and allowing renewed economic activities in these once prosperous areas. In addition, support will also be provided to promote more transparent and sound Angolan Government economic policy decisions based on sustainable, broad-based, market oriented principles. Specific initiatives would include training and advisory support for key economic ministries and the development of a credible economic data base.

While the details of the economic management support project need to be worked out, the basic program would be as follows. First, senior economic advisors would be placed within key GOA economic ministries such as planning, finance, agriculture, trade and the central bank to help formulate a realistic economic structural adjustment reform program to move Angola along the path from emergency relief to rehabilitation assistance to sustained growth. Training for Angolans would also be an important part of the program. Second, to address the problem of the lack of a basic "core" of economic data/information for decision making, the project would fund statisticians and analysts to work with the GOA to develop the capacity and then proceed to gather economic data series as the initial step in the creation of an adequate data base. Third, the project would also fund studies to provide the necessary information to help the GOA to assess the alternatives available for making the economic policy decisions that are required.

Related Activities. Throughout 1995, OFDA's overriding mission will be to address Angola's critical, life-threatening needs through its health and feeding programs. OFDA will also continue to play a leadership role in pressing for improved management of international resources, a reduction of dependency on emergency relief, and a conversion to rehabilitation and recovery activities as appropriate, based upon the timing and pace of implementation of economic stabilization and structural reforms once it is apparent that a lasting peace acceptable to all major warring factions is a reality.

It is proposed that a joint undertaking involving OTI, the State Department, and the Department of Defense be conducted to support NGOs and United Nations (UN) programs for clearing minefields. Such an effort would build on recent progress achieved by three international NGOs in clearing minefields and a newly created UN agency in building indigenous capacity to clear the remaining minefields. This effort will allow donors to achieve a highly favorable economic impact in a relatively short period of time. Prompt clearance and destruction of the remaining mines will quickly alleviate the profound constraint that they impose on virtually all facets of life in Angola, including freedom of

movement, trade, agricultural production, the delivery of humanitarian relief, and the deployment of UN observers and peacekeepers.

**Indicators.** As the proposed project has not yet been designed, indicators have not been developed. For rehabilitation activities, selective indicators could include measures of the extent to which health and agricultural distribution and extension services had been restored. Illustrative examples of indicators for economic planning and data collecting activities are short and long-term training plans developed; participants selected and placed in training programs; seminars and workshops held; appropriately designated data series being collected and weighted/interpreted as required; number of policy studies conducted; and number of statisticians and analysts hired to work for various offices of the GOA. Ultimately, the quality and soundness of the GOA's economic policies and structural adjustment reforms adopted will depend directly upon the project's activities.

**Feasibility and Cost-effectiveness.** The proposed approach is feasible and extremely cost-effective. The United States alone contributed almost \$89.9 million in humanitarian assistance to Angola in FY 1994. U.S. humanitarian assistance is expected to remain at this level during FY 1995. The proposed development program is estimated at \$10 million per year, or a relatively small fraction of the current assistance level. The U.S. and other donor programs have the potential to eventually eliminate the need for humanitarian assistance.

**Progress in 1993-1994.** No development assistance program was in place.

**Donor Coordination.** The United Nations has established the Central Mine Action Office to oversee the clearing of the estimated 9-20 million land mines still active in Angola. The U.N.'s International Children's Emergency Fund and High Commission for Refugees, together with NGOs from the United Kingdom and Norway, are actively supporting this program. The UN has developed an ambitious demobilization and reintegration plan as part of a humanitarian relief program. The World Bank is also contemplating an emergency infrastructure rehabilitation project to be implemented over the 1995-1997 period.

**Constraints.** The success of a sustainable development program in Angola will depend upon a lasting peace, including a program of combatant demobilization and reintegration, a vigorous program of rehabilitation, and an economic environment conducive to economic recovery and growth.

#### **Other Donor Resource Flows.**

In 1993 the largest donors to Angola were the United Nations World Food Program (\$57.4 million), the United States (\$54 million), the European Development Fund (\$45.6 million), Italy (\$34.5 million), Portugal (\$23.9 million) and France (\$18.5 million).

**ANGOLA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
<b>1. Provide assistance for the demobilization and reintegration of the warring factions into the economy.</b>					
Economic Support Fund	--	--	--	4,000,000	4,000,000
<b>2. Assist GOA with the rehabilitation and stabilization of the economy.</b>					
Economic Support Fund	6,000,000	--	--	--	6,000,000
<b>Total</b>	6,000,000	--	--	4,000,000	10,000,000

USAID/W AFR/SA Office Director: Joseph Goodwin

## BENIN

**FY 1996 Development Fund for Africa Request . . . . . \$17,132,173**  
**FY 1996 P.L. 480 Title II Request . . . . . \$1,963,000**

Benin is one of Africa's least developed nations, primarily because of its limited natural resources and poorly developed infrastructure. Benin is, however, a model for other African nations because of its recent peaceful transition from a Marxist-oriented political system to a civilian-led, multi-party democracy. The sustainability of this young democracy depends heavily on the efforts of USAID. U.S. assistance to Benin supports U.S. interests in promoting democratic governance in this extremely fragile economic and political region of Africa.

### **The Development Challenge.**

The development challenge for Benin's population of five million is a large one. The nation's poor economic and social status is a direct result of past political instability and ill-advised economic policies and political systems. Per capita Gross Domestic Product (GDP) is \$410 (as measured before the January 1994 West African franc devaluation), but the population fares far worse on the United Nations Human Development Indicator Scale than the GDP level indicates. Life expectancy is 51 years. Although declining, fertility, population growth, infant mortality and illiteracy rates are high. Population growth is 3.4% annually, infant mortality is 112 deaths per 1,000 live births and the illiteracy rate hovers around 77%. The prevalence of Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS) is presently 1% among general, low-risk populations, 15-30% among high-risk populations and steadily increasing in both areas.

With the return of social and political stability in 1991 and the institution of a five-year structural reform program, the Beninese economy has begun to recover. Real GDP increased by 4.7% in 1991 and by 4.3% both in 1992 and 1993. Inflation was held to 3.4% on average in 1993, and the budget deficit decreased to approximately 4.3% of GDP. Education levels, for girls and boys, have been showing strong increases with USAID assistance and the percentage of the national budget geared towards primary education has increased from 11% in 1992 to 14.1% in 1993. The upcoming legislative elections in February 1995 and subsequent presidential elections in 1996 will function as important indicators of Benin's progress in the areas of democracy and governance.

### **Strategic Objectives (SOs).**

Currently, USAID is pursuing one strategic objective in Benin. The program also consists of activities in training, and democracy and governance.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$13,709,458 including cross-cutting human relations development of \$900,000).**

**SO 1. Assist in ensuring that an increasing number of primary school-age children receive, on a more equitable basis, an education which adequately prepares them for a productive role in society (\$12,809,458).**

Benin's poor primary education system is a major constraint to the country's economic development. During the previous Marxist regime, the educational system collapsed because the government lacked the budget resources to finance national goals, resulting in non-payment of teachers' salaries, declining enrollment and commodity shortages. By emphasizing administrative and financial management and promoting public sector accountability and transparency, USAID is having a direct effect on governance and participation while improving the primary education sector.

**Activities.** Education sector activities strive to establish and maintain sufficient financing for primary education by realigning national budget allocations to favor the sector. The Children's Learning and Equity Foundations (CLEF) Program employs policy dialogue to encourage the government to devote a higher percentage of the national budget to teacher salaries and additional resources to non-salary expenditures heretofore neglected such as: curriculum development, teacher retraining and commodity provisions. Additionally, under a grant to a U.S. private voluntary organization (PVO), USAID supports capacity-building within local non-governmental organizations (NGOs) in the education sector. Local NGOs specializing in education establish cooperative partnerships with U.S. PVOs, involving larger segments of the Beninese community in the education sector reform process. USAID-supported initiatives will continue to improve institutional capacity for planning and management, upgrade pedagogical systems, increase access for all primary school-age children and promote public participation in primary education.

**Indicators.** USAID indicators for measuring progress towards achieving this objective are: increased percentage of the national budget devoted to primary education - from 11% to 16% in 1995, and increased annual expenditures per student for learning materials from zero at the beginning of the program to \$5; (2) reduced national repetition rates from over 27% in 1990 to approximately 15% by 1998, and reduced drop-out rates from 26% to 10% by 1999; (3) increased number of qualified teachers from 2,000 to 8,800 (63%) by 1995 and to 15,545 by 1998; and (4) increased gross school enrollments by almost double from 1989 to 1999, to 78%.

**Feasibility and Cost-effectiveness.** If Benin is to successfully transform its economy into one that is market-oriented, competitive and private-sector driven, it must quickly upgrade its human resource base and its labor force productivity. In addition, Benin's transition to democracy requires an electorate which is sufficiently informed to exercise its freedom, choices, and responsibilities of oversight. While such impacts are hard to measure and reforms difficult, Benin's National Conference mandated that the newly established government include education reform, especially primary education, among its highest priorities. In addition to the employment and positive economic effects of improving quality and access to primary education, Benin's reform effort and USAID's programs aim to improve basic internal efficiencies of the system. Because of the poor teaching and learning environment, drop-out rates and repeat rates are responsible for the system's need to finance 26 student years of education for each primary school diploma. Cutting that rate in half would reduce per pupil costs of education significantly and more importantly, open the system up to twice as many children. Most of those beneficiaries would be girls.

**Progress in 1993-1994.** The Government of Benin (GOB) continues to commit a significantly higher allocation of non-salary financing to primary education, and has adopted a conceptual framework designed to focus attention on the entire learning environment of the child as its central planning mechanism. The GOB has established a baseline and is using its Management Information System (MIS) as a basis for outlining Ministry goals to the public, and specifically parents. Gross enrollment continues to increase and Ministry statistics demonstrate that significant achievements have been made in improving equity of access for girls. Enrollment rates, 52% in 1990, exceeded 63% in 1993. In 1993-94, 18% more girls enrolled in the first grade than in the previous two years, bringing total girls' enrollment up to 38% from 33%. The number of students passing the primary leaver exam rose to 60% from 39%.

**Donor Coordination.** With respect to the achievement of this SO, donor coordination has been difficult. The World Bank developed an education sector adjustment program in 1992, which it later cancelled and replaced with a smaller project. USAID then expanded its program to incorporate the planning, budgetary, financial and personnel elements intended for the Bank's original program. Bilateral donors tend to work in separate focus areas. Under this SO, USAID plays a large and singular role in one of the primary focus areas of French technical assistance. USAID concentrates its efforts on primary education, while the French focus assistance in the areas of secondary and higher education.

**Constraints.** Timely financial disbursements and proper management are threatened by the lack of financial and administrative management skills in the GOB, two areas in which USAID is focusing assistance. USAID-sponsored training in these areas provides greater transparency and accountability to GOB operations.

**Cross-cutting Issues.**

**STABILIZING POPULATION GROWTH (\$3,350,715).**

USAID will help expand the delivery and increase the quality of integrated mother and child health care and family planning services in both the public and private sectors. Human development activities will include technical assistance, commodities and information, education and communication and training. USAID will also assist the GOB in defining policy concerns and finance family planning initiatives developed in conjunction with the Ministry of Health.

**BUILDING DEMOCRACY (\$72,000).**

In addition to the activities discussed above, USAID provides assistance for democracy and governance activities in Benin. USAID supports electoral activities and training, as well as the development of a strong institutional grouping of NGOs dedicated to democratic ideals and increased participation in the political structure. In 1993-94, under a grant to a U.S. PVO, workshops and meetings on policy questions and NGO advocacy were held, support and training to NGO federations and groupings were provided and umbrella grants were provided to 2-3 U.S. PVOs to work with local NGOs on capacity-building initiatives. Next, NGOs, with USAID assistance, will implement responsive grassroots self-help activities and serve as intermediary organizations in channeling and processing community-level social demands. The strengthening of NGOs thus promotes sustainable development and serves to consolidate democracy. With USAID's help, the number of functioning, competent and representative NGOs will increase by 30 by 1999 and at least 30% of Benin's adult population will be directly involved in some part of the NGO movement.

**HUMAN RESOURCES DEVELOPMENT (\$900,000).**

Through two training projects, USAID provides in-country, third-country and U.S.-based educational training to public and private local organizations and individuals. Educational training activities support secondary and higher educational goals and encourage continuing education and/or training at all levels of leadership and management. USAID taps into local teaching/training capacity and marshals local talent to reach larger numbers of beneficiaries. Training areas include the development of leadership, management and technical capabilities, decision-making skills, and outreach to the informal sector and emerging businesses.

**PROVIDING HUMANITARIAN ASSISTANCE (\$1,963,000).**

P.L. 480 Title II development aid is provided by Catholic Relief Services in Benin. Under this program, food security indicators have shown clear positive progress over the past several years. Maternal/child health programs promote the health and well-being of 52,000 women and children. School Feeding targets increased attendance for 7,000 rural children, and direct distribution exists for 4,000 socially disadvantaged people.

**Other Donor Resource Flows.**

In FY 1993, the United States was the fourth largest donor to Benin, providing 3.8% of all donor contributions. Other major donors included Japan, the African Development Bank Fund, the European Development Fund, and the International Development Association.



**BENIN  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
<b>1. Strengthen and Improve Primary Education</b>	12,809,458	--	--	--	--	12,809,458
<b>Cross-cutting issues:</b>						
Population/Health	--	3,350,715	--	--	--	3,350,715
Democracy/Governance	--	--	--	72,000	--	72,000
Human Resources Dev.	900,000	--	--	--	--	900,000
P.L. 480, Title II	--	--	--	--	1,963,000	1,963,000
<b>Total</b>	<b>13,709,458</b>	<b>3,350,715</b>	<b>--</b>	<b>72,000</b>	<b>1,963,000</b>	<b>19,095,173</b>

USAID Representative: Thomas F. Cornell

## BURUNDI

**FY 1996 Development Fund for Africa Request: . . . . . \$4,812,500**

Burundi's development has been set back by its political and ethnic problems. With 5.8 million people, a per capita income of \$210, and an economy based largely on subsistence agriculture, Burundi is among the poorest and most densely populated countries in Africa. Its political/ethnic tensions, over-population, limited resource base and its near-total reliance on coffee exports for foreign-exchange earnings significantly impede economic growth and improvements in its standard of living. Before the October 1993 crisis engendered by the attempted coup by Tutsi soldiers, and the assassination of the country's first democratically-elected Hutu president, Burundi was largely self-sufficient in food production, although land pressures and deteriorating soil were having an increasingly negative impact on protein intake and per-capita food production. It is in the interest of the United States to prevent Burundi from continuing this downward spiral and to assist the country in becoming self-sufficient again by continuing development assistance in order to reduce the humanitarian relief budget spent for Burundi. The development budget requested for FY 1996 is \$4 million compared to the \$62 million spent for humanitarian relief needs in Burundi for FY 1994 and the humanitarian food assistance of \$120 million projected for the Rwanda/Burundi region in FY 1995. Crisis prevention would reduce the ultimate relief costs and provide the support needed to restore stability in Burundi and ultimately in the region.

### **The Development Challenge.**

Since October 1993, continued civil unrest and ethnic conflict have resulted in low food supplies, a drop in exports and industrial output, an increase in business failures and retrenchments, and sharp decreases in social indicators such as school attendance, infant mortality and unemployment. The Gross Domestic Product fell by nearly 6% in 1993 and a greater decline was expected in 1994, despite increased coffee prices on the world market.

The crisis in Rwanda (which is located immediately north of Burundi) has only exacerbated Burundi's problems; Burundi and Rwanda share similar ethnic and cultural characteristics and tensions. The massacres of Tutsis in Rwanda have emboldened hardliners from the former government in Burundi, mainly Tutsis, not to relinquish power to the democratically-elected, predominantly Hutu government. This has paralyzed the government, added to the insecurity, and further dampened economic output. However, late in 1994, the contending ethnic groups reached a political accommodation. While fragile, that accommodation currently remains in force.

### **Strategic Objectives (SOs).**

The fragile political and security situation has mandated that the strategic objectives of the Burundi program be changed to deal with the events of the last year. Restoration of peace and stability must precede economic development. USAID's development assistance program will focus on humanitarian and democracy and governance activities. As part of the focus, and USAID plans to concentrate its efforts on the transition toward self-sufficiency by assisting in micro-enterprise development. USAID will also continue to maintain limited activities in the areas of population/health and AIDS prevention, and be prepared to support other programs that may emerge as part of a broader U.S. response to the crisis in the sub-region.

### **BUILDING DEMOCRACY (\$1,751,925).**

#### **SO 1. Enhance Democracy and Governance (\$1,751,925).**

The need to promote democracy and governance as a primary strategic objective is irrefutable given Burundi's recent history. The assassination of the first elected President of Burundi, Melchior Ndadaye,

on October 21, 1993, was followed by a period of ethnic violence and military reprisals. The untimely death of his successor led to a second period of instability. These events have set back the democratic reform process and the emerging political consensus painstakingly put in place over the past five years. The seemingly successful transfer of power from a military dictatorship to a representative democracy has been undone by the violence following the assassinations and exacerbated by the tensions resulting from the wholesale massacre of the minority ethnic group in Rwanda. During this period, the constitutional reforms strengthening democracy and human rights have largely been eroded as extremists of both major ethnic groups hampered new power-sharing arrangements. As a result of arduous negotiations, 12 of the 13 political parties have agreed to divide senior government positions, with 55% for the majority parties and 45% for the opposition parties.

Activities. The obvious first step in recreating a political consensus and minimal social harmony is to promote dialogue and the greater participation and representation of the population who desire the return of political, social and economic stability. Greater participation of the economically disadvantaged majority, while protecting the rights of the traditionally powerful minority, are the key objectives. The international community, led by the United Nations Special Representative of the Secretary General (UNSRSG), has served as mediator with the ethnic groups, initiating dialogue in an effort to prevent carnage similar to that which took place in Rwanda, while at the same time promoting democracy. Primarily through its Democracy/Governance Project, USAID has provided assistance to indigenous, U.S., and international institutions for activities to continue to promote dialogue and strengthen the voice of the moderate silent majority. These include grants to the Office of the SRSR, the National Democratic Institute (NDI), the United Nations High Commission for Human Rights, United States Information Service and others. USAID programs have significantly increased the level of dialogue and the role of civic societies and groups in the consensus building process which, in turn, have contributed to the continued fragile peace.

Indicators. USAID indicators for measuring progress toward achieving this objective are: (1) an increase in dialogue among diverse groups; and, (2) an increase in popular participation and representation in government.

Feasibility and Cost-effectiveness. The ultimate feasibility of the multi-donor and international diplomatic effort to promote consensus and prevent "another Rwanda" is far from guaranteed. The history of Burundi suggests that civil peace is fragile and a Rwandan-type catastrophe could be set off by any number of events. Nevertheless, the intense efforts of the USAID program in concert with the UNSRSG and other international organizations has played the major role in maintaining a tenuous stability since October 1993. If this peace solidifies and if consensus begins to be developed, it will be largely due to these efforts. The \$5 million earmarked for development programs in FY 1995 is a small fraction of the cost for humanitarian assistance and an even smaller fraction of the likely costs for peace keeping operations.

Progress in 1993-1994. Despite the events in neighboring Rwanda, the sudden death of its President, a shattered economy and many other set-backs, Burundi has not exploded. Slow and difficult progress is being made to create a stable government and reduce the level of ethnic tension. In October 1994 a power sharing arrangement was reached and has been maintained between the various political factions. The Government has resumed its functions and economic activity is resuming, albeit with much difficulty.

USAID has played a major role in this process through its programs which have promoted dialogue and reconciliation and has supported and strengthened the role of the moderate political and civic elements in society. USAID has played a significant role in developing what is hoped will eventually be a "critical mass" of moderate civic leaders through its programs with NDI, the UNSRSG, the United Nations High Commission for Human Rights, and many other local and international organizations.

**Donor Coordination.** While USAID is the leading donor in the area of democracy and governance, it works hand-in-hand with several other active donors and international organizations. In fact, USAID provides funding for some of these organizations' activities to promote dialogue and reconciliation. These include the UNSRSG, which, with USAID funds, has played the leading role in keeping Burundi stable; the United Nations High Commission for Human Rights, United Nations Children's Fund (UNICEF), the World Bank, European Community, Germany, France and Belgium.

**Constraints.** Burundi's immediate and most severe constraint remains the unstable political situation. Despite progress made, there is still a high level of distrust and fear between the two major ethnic groups (Hutus and Tutsis) and the two major political parties. Extremism amongst the parties and ethnic groups as well as a partisan military are further contributors to this instability.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$2,669,775).**

**SO 2. Relieve human suffering caused by civil unrest, ethnic violence, and an abusive military regime (\$2,669,775).**

Delivery of humanitarian assistance to people affected by the crisis in Burundi and the region has been the primary objective of the USAID Mission. The affected population (those in direct need of emergency assistance) has varied from 1.5 to 2.5 million, depending on the political situation in Rwanda and Burundi. These include the internally displaced Burundians; those in camps, those dispersed in the hills and valleys who fear coming to the camps, and those who fled to Rwanda and then had to return; and Rwandan refugees dating back to the Habyarimana regime in the 1960s as well as newer refugees after the victory of the Rwandan Patriotic Front. The immediate needs of these people remain food, water, shelter, sanitation and protection from the spread of disease. During the past year, food production declined by over 40% causing a food deficit of 183,000 metric tons. Tens of thousands of homes and acres of productive land and forests were destroyed. Most of Burundi's 230 primary health care clinics were destroyed or made inoperable because of losses - including loss of personnel. Overcrowded camp conditions, particularly at the onset of the crisis, created a ripe environment for the spread of dysentery and other diseases.

**Activities.** During 1994, the U.S. provided approximately \$62 million in emergency humanitarian assistance to Burundi in the form of grants to non-governmental organizations (NGOs) and international organizations to help meet these immediate needs. USAID, with the assistance of the Disaster Assistance Response Team, set-up systems to monitor needs of the affected population and implementation of emergency relief activities. The primary sources of funding have been the USAID's Offices of Foreign Disaster Assistance, and Food for Peace, the Department of Defense (for airlifts), and USAID/Burundi's own bilateral projects. Major grants were made to the World Food Program to provide emergency food relief; the Adventist Development Relief Association, and the Catholic Relief Services (CRS) and its local organization for food and material distribution; UNICEF, the International Committee for the Red Cross, and Doctors Without Borders for medicines and emergency medical/surgical services and; the Center for Disease Control for emergency programs to combat the spread of diseases.

USAID grants to CRS provided seeds and tools to needy farmers as part of the effort to encourage them to return to their homes. A grant to CRS helped to strengthen the long-term capacity of the local Catholic Relief Services (CARITAS) to assist in relief and development activities. USAID's grant to UNICEF helped the Health Ministry resume a program to provide medicines to rural areas. As part of the relief and rehabilitation efforts, the development program will establish staff and train health centers within the Ministry of Health.

**Indicators.** USAID indicators for measuring progress toward achieving this objective are to: (1) lower levels of incidents of violence; and, (2) increase economic output.

**Feasibility and Cost-effectiveness.** An evaluation conducted at the end of 1994 of the food distribution program funded by USAID found that the program was extremely effective with over 68,000 tons of food successfully distributed to the displaced and dispersed population with a minimum of loss or waste. Furthermore, USAID strengthened the effectiveness of local NGO organizations, primarily CARITAS, to effectively manage the food distribution for the entire at risk population in Burundi.

**Progress in 1993-1994.**<sup>1</sup> During this period, levels of production increased as most of the 900,000 dispersed peoples (mostly Hutus) returned to their farms and began productive activity. USAID played a major role in aiding this process by providing tools, seeds and other material to re-start agricultural activities. Unfortunately, many of the "displaced" population (primarily Tutsi) have remained in camps outside provincial centers because of fears for their security.

**Donor Coordination.** In the area of humanitarian assistance USAID has worked closely with major donors, the United Nations High Commission for Refugees, World Food Program, and the EC. USAID along the EC are the major contributors to the World Food Program for food assistance to Burundi. USAID has made major contributions in health, sanitation, and shelter through its programs with International Committee of the Red Cross, Doctors Without Borders, and other international organizations.

**Constraints.** As noted above in SO 1, Burundi's immediate and most severe constraint remains the unstable political situation. Despite progress made, there remains a high level of distrust and fear between the two major ethnic groups and the two major political parties. Extremism amongst the parties and ethnic groups as well as a partisan military are further contributors to this instability.

**Cross-cutting Issues:**

**STABILIZING POPULATION GROWTH (\$1,500).**

Burundi has the second highest population density in Africa. Stabilizing the population growth rate was a strategic objective of USAID's development strategy until the 1993/1994 crisis made the promotion of democracy and governance a country priority. As stability returns, USAID will reengage in family planning activities in Burundi in FY 1996.

**PROTECTING THE ENVIRONMENT (\$389,300).**

Ongoing activities will take place as it relates to environmental protection in agriculture research.

**Other Donor Resource Flows.**

In FY 1993, the United States provided about 9% of all donor assistance to Burundi. Other major donors are: Belgium, the IDA, France, and Germany.

**BURUNDI**  
**FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Enhance Democracy and Governance.	--	--	--	1,751,925	--	1,751,925
2. Relieve Human Suffering from Civil Unrest, Violence, and Abusive Military Regime.	2,669,775	--	--	--	--	2,669,775
<b>Cross-cutting issues:</b>						
Family Planning	--	1,500	--	--	--	1,500
Environmental Protection	--	--	389,300	--	--	389,300
<b>Total</b>	<b>2,669,775</b>	<b>1,500</b>	<b>389,300</b>	<b>1,751,925</b>	<b>--</b>	<b>4,812,500</b>

USAID Mission Director: Myron Golden

## CENTRAL AFRICAN REPUBLIC

**FY 1996 Development Fund for Africa Request: . . . . . \$2,902,000**

The Central African Republic (C.A.R.) is a landlocked and sparsely populated country of approximately three million people. The majority of the inhabitants practice traditional subsistence agriculture. Social services, especially health care, are inadequate. A democratically elected government, installed in late 1993, is attempting to address the country's basic social needs.

U. S. assistance to C.A.R. is based on political and humanitarian considerations. Spreading democratic values and bolstering newly democratic states is a key U.S. foreign policy objective. Having successfully completed the transition to multi-party democracy, C.A.R. serves as an example to other African countries attempting to democratize. C.A.R. is a stable ally for the United States in a troubled region. Given its central geographic position, the country provides a staging point for military and relief operations (such as in the Rwanda case in 1994) and serves as a secure refueling stop for U.S. aircraft. Shared scientific data from a seismic station in C.A.R. is important for U.S. scientific programs and foreign policy goals.

### **The Development Challenge**

C.A.R. is one of the poorest countries in the world, with a per capita income of only \$380. Economic structural reforms begun in 1992, in cooperation with international donors, had little success because of unfavorable world economic trends and corruption and mismanagement under the previous military government. Sweeping public and private strikes between 1991-1993 over the issues of salary arrears and the pace of political reform further decimated the economy. In the fall of 1993, a peaceful transition to democracy was completed when Ange-Felix Patasse was elected in free, fair and transparent multiparty elections. In its first year, the Patasse government has strengthened civil institutions, maintained respect for human rights, and begun a stringent economic revitalization effort.

Although gains have been made, the country's health care infrastructure was devastated by years of neglect under military rule. Children under five years of age, who make up 20% of the population, suffer the most from lack of adequate health care. Human Immunodeficiency Virus/Acquired Immune-Deficiency Syndrome (HIV/AIDS) and sexually transmitted diseases are present in C.A.R. at alarmingly high rates and are rapidly eroding any positive gains made in child survival programs.

### **Strategic Objective (SO).**

Consistent with the Africa Bureau's Small Country Strategy, USAID supports one strategic objective.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$2,820,000)**

#### **SO. Reduce infant and child mortality and the incidence of HIV/AIDS (\$2,820,000)**

Consistent with USAID's overall strategy of protecting human health by strengthening the delivery of primary health care services and reducing the incidence of HIV/AIDS infections, an activity is being implemented to increase the availability, accessibility, and use of improved health care and HIV/AIDS services.

**Activities.** The Sustainable Child Survival Project, which began in late FY 1992, seeks to reduce the incidence of infant and child mortality and AIDS in the Central African Republic, while increasing the accessibility of health services. Under this five-year project USAID will improve the delivery of primary health care through cost effective child survival technologies and cost recovery. Also, a condom

marketing program and improved services for treatment of sexually transmitted diseases are being implemented to combat HIV/AIDS.

**Indicators.** USAID indicators for measuring progress towards achieving this objective are: (1) reduced infant and child mortality rate, other than from HIV/AIDS, by 10% in 1996, and by at least five percent in the remotest health region; (2) stabilized HIV/AIDS transmission rates or reduced transmission rates by five percent in targeted areas; and (3) cost-recovery systems functioning effectively at national, regional, and county hospitals, and in the process of being introduced in at least 15% of the local health centers. Approximately 1,000,000 people will benefit from these services in 1996.

**Feasibility and Cost-effectiveness.** Prior activities under the USAID's regionally-funded Combatting Childhood Communicable Diseases project in C.A.R. was highly successful in increasing the accessibility to quality primary health care services and in strengthening the national capacity to sustain the delivery of these services. A major element of the success was the strong commitment and leadership found in the government's Ministry of Health. Building on this successful model, the current approach provides for grants to U.S.-based public and private health organizations having prior relevant child survival and HIV/AIDS control experience in Africa.

**Progress in 1993-1994.** Accomplishments under the Sustainable Child Survival project include: (a) two fee-for-service clinics for sexually transmitted diseases (STDs) and HIV/AIDS have been established and are operating using revised treatment programs (60% of the case load is female); (b) there has been a 40% cost reduction noted for STD treatment for early treatment cases; (c) concentration efforts in immunization activities produced 51% complete immunization coverage for children age 12-23 months in spite of a general public strike during the last year which greatly reduced health service provision; (d) 71% of women with children under the age of 12 months received some degree of prenatal care; (e) 48% of live births were protected against neonatal tetanus; (f) 70% of women indicated a willingness to pay for immunization service; and (g) a potential measles epidemic was avoided through concentrated immunization activities. Two and a half million condoms have been distributed during the first 18 months of the project. Based on this incredibly strong demand for condoms, the project will increase its projected requirements of 3.5 million condoms over the four-year, life-of-project to 12,000,000.

**Donor Coordination.** There is close coordination with the United Nations Children's Fund, World Health Organization, Germany and Japan on matters concerning child survival and HIV/AIDS.

**Constraints.** A major constraint is the limited capacity of the newly elected government to implement proposed reforms in the health sector.

#### **Cross-cutting Issue:**

#### **BUILDING DEMOCRACY (\$82,000)**

As a cross-cutting issue, USAID will continue to provide assistance for democracy and governance activities. USAID assistance has moved beyond electoral support to training the nascent National Assembly to increase its effectiveness which will enhance the prospects for consolidation of democratic governance. New activities will also support and further develop the civic education efforts of human rights, civic and women's groups.

#### **Other Donor Resource Flows.**

France provided over 50% of donor assistance to C.A.R. in 1993. Others include Japan, Germany, the World Bank and the European Union. The United States provided approximately 2% of donor aid in 1993.



**CENTRAL AFRICAN REPUBLIC  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Reduce Infant & Child Mortality and incidence of HIV/AIDS.	2,820,000	--	--	--	2,820,000
Cross-cutting Issue: Democracy/Governance	--	--	--	82,000	82,000
<b>Total</b>	<b>2,820,000</b>	<b>--</b>	<b>--</b>	<b>82,000</b>	<b>2,902,000</b>

USAID/W AFR/WA Office Director: Lucretia Taylor

## CONGO

**FY 1996 Development Fund for Africa Request: . . . . . \$1,089,300**

The Congo, with a population of approximately two million people and a per capita income of less than \$600, is blessed with an abundant agricultural and forestry potential. However, only 2% of arable land is currently cultivated, primarily by subsistence farmers. Also, vast expanses of moist tropical forest regions are experiencing an accelerating trend of deforestation and unsustainable natural resource use. United States assistance to Congo supports U.S. interests in advancing sound environmental protection policies related to biodiversity and global climate changes in ecosystems of importance, limiting the worldwide spread of the HIV/AIDS virus and promoting economic and political stability in this troubled region.

### **The Development Challenge.**

Freely elected in 1992, President Pascal Lissouba's young democracy was severely tried in 1993 and early 1994 by violent civil unrest. Political and ethnic turmoil has slowed the adoption of necessary measures to implement strict structural adjustment measures and free-market economic policies.

Environmentally, Northern Congo contains vast forest regions which are part of the second largest contiguous expanse of moist, tropical forest in the world. This region is home to forest elephants, lowland gorillas and other endangered species. Uncontrolled destruction of this forest area is a significant factor in the decline of these species as well as increased global greenhouse emissions.

The Government of Congo, one of the countries in the so-called Central African "Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome Belt", has identified AIDS as a serious public health problem with grave humanitarian, demographic, economic and social implications. Latest available data estimates of prevalence range from 9% to 17.5% for the population.

### **Strategic Objective (SO).**

Consistent with the Africa Bureau's Small Country Strategy, USAID's program supports a single strategic objective. In FY 1996, USAID's earlier activities in protecting the environment will become part of a regional Congo Basin environmental activity and a new SO to address HIV/AIDS will be developed.

### **ENCOURAGING ECONOMIC GROWTH (\$1,020,725).**

**SO 1. Reduce HIV/AIDS (\$1,024,300, of which \$1,020,725 is for Economic Growth and \$ 3,575 is for Stabilizing Population Growth).**

AIDS and sexually-transmitted diseases are present in Congo at alarming levels, and are among the highest in Africa. High prevalence of sexually-transmitted diseases and the lack of condom use have increased the likelihood of sexual transmission. HIV/AIDS is rapidly becoming a leading cause of death for children under five years of age, as it has already become for young adults. Currently, estimates are that 9% to 17% of the population are infected. Interventions undertaken through the proposed project will increase the availability and use of HIV/AIDS prevention products through a social marketing approach.

**Activities.** In order to reduce the spread of sexually transmitted diseases and the HIV/AIDS virus, USAID will support activities which will create a demand for and market nationally affordable condoms, especially in high risk areas.

**Indicators.** Anticipated indicators for measuring progress are: (1) At least 4,000,000 condoms marketed nationally over the five-year period 1996-2001, (2) increased awareness and acceptability of condoms among target groups, (3) increased availability of these products through pharmacies and other commercial outlets, and (4) increased overall demand for and use of the products.

**Feasibility and Cost-effectiveness.** In 1985, the Government of the Congo was one of the first sub-Saharan African governments to acknowledge openly the serious nature of the HIV/AIDS epidemic. It remains strongly committed to combatting HIV/AIDS and has endorsed the condom social marketing approach, which has been proven to be a cost-effective intervention in other African countries for the prevention and control of HIV/AIDS.

**Progress in 1993-1994.** This Activity is scheduled to begin in late FY 1996.

**Donor Coordination.** It is important to note that Brazzaville, Congo currently serves as a regional center for Africa for various international health organizations through which Africa-wide policies and guidelines related to HIV/AIDS and other important public health issues are established. It is anticipated that close coordination will be established with these organizations.

**Constraints.** Renewed civil and military instability could be a principal constraint. However, democratic consolidation efforts are providing a stronger foundation for a more stable civil society.

**Cross-cutting Issue.**

#### **BUILDING DEMOCRACY (\$65,000).**

As a cross-cutting issue, USAID will continue to provide assistance for democracy and governance activities. USAID assistance has moved beyond electoral support to training the nascent National Assembly to increase its effectiveness, which will enhance the prospects for the consolidation of democratic governance. New activities will also support and further develop the civic education efforts of human rights, civic, and women's groups.

#### **PROTECTING THE ENVIRONMENT - Conserving Congo Basin Forests and Wildlife**

The Conservation of Northern Forest (CNF) project will end in FY 1996. However, it is anticipated that its activities will be incorporated into a regional effort focussed on the conservation of the Congo Basin rain forest region and reduced global greenhouse emissions. The CNF project, which began in FY 1991, is implemented by a U.S. nongovernmental organization, the Wildlife Conservation Society (WCS), whose assistance focuses on the conservation of the tropical forest of northern Congo. WCS, working with the Ministry of Forest Economy, has introduced environmentally sound forest management and conservation practices aimed at preserving the natural resource base. A project milestone was reached in 1994, when the Congolese President officially decreed Nouabale-Ndoki as a national park, the country's first to be established since independence from France in 1960. Other results include: collection of forestry data and wood samples (some 700-800 years old); initial studies and surveys of the forest elephant population and migration patterns, flora and bird species; establishment of research and base camps within and adjacent to the park; installation of transport infrastructure which includes reopening, by hand, of a 32 kilometer access road to the park; assignment of Congolese counterpart personnel and trainees; and a framework for international cooperation relating to the development of the Nouabale-Ndoki Park project.

#### **Other Donor Resources Flows.**

In 1993, France provided 75% of the donor resources to Congo; German assistance accounted for 10% and the United States provided slightly more than 1%.

**CONGO  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Reduce HIV/AIDS	1,020,725	3,575	--	--	1,024,300
<b>Cross-cutting Issue:</b>					
Democracy/Governance	--	--	--	65,000	65,000
<b>Total</b>	<b>1,020,725</b>	<b>3,575</b>	<b>--</b>	<b>65,000</b>	<b>1,089,300</b>

USAID/W AFR/WA Office Director: Lucretia Taylor

## ERITREA

**FY 1996 Development Fund for Africa Request . . . . . \$ 9,623,604**  
**FY 1996 P.L. 480 Title II Request . . . . . \$4,060,000**

Eritrea is Africa's newest independent country, having formally achieved its independence from Ethiopia in May 1993. Three decades of fighting to achieve that independence have left Eritreans with a devastated infrastructure, but a strong commitment to rebuild their country economically and politically. Evidence of this dedication abounds. Among Eritrea's economic recovery goals are complete rehabilitation of the strategic port facility at Massawa (one of very few in the region); rebuilding the railway system; and the transition to a market economy. Among the political goals are development of a democratic constitution; and, one of the most delicate issues in the region, demobilization and reintegration of ex-combatants. Eritrea is a solid example of an emerging civil society and self-reliant determination. U.S. assistance to Eritrea supports U.S. interests by promoting economic recovery and growth, and democratic governance to underpin national stability in an historically volatile region. Eritrea's two deep water ports and shipping lanes in the Red Sea are of strategic importance in the Mideast and Horn of Africa regional contexts, and are principal life lines for humanitarian assistance to the Horn region where this past year, famine threatened 25 million people.

### **The Development Challenge.**

Eritrea's severe poverty has been exacerbated by decades of war. By African standards, Eritrea's health and nutrition indicators are poor. Infant mortality is 135 deaths per 1,000 and under-five mortality is 203 deaths per 1,000. Life expectancy is approximately 46 years. Population growth rates of 2.7% to 3% are high. Eritreans suffer from preventable diseases such as malaria, diarrhea and acute respiratory infections. Compounding these problems, health facilities are damaged or non-existent in many areas. Most Eritreans depend on agriculture for their survival, but Eritrea's location in the erratic Sahelian rainfall zone makes food security a paramount concern. Food security in Eritrea is also constrained by a lack of processing facilities and marketing systems, and poor transportation infrastructure.

Potential for rapid rehabilitation and development in Eritrea is high. The country was once the most industrialized in Africa and has the legacy of a hard-working labor force and good public and private management. Its location at the crossroad of the Middle East and Africa is advantageous to trade. Eritreans are united in their commitment to rebuild their country. A careful steward of limited resources, the Government of Eritrea (GOE) is committed to the principles of an open-market economy and has made impressive progress in this area. Recognizing that a healthy, productive population is its strongest resource, the GOE has entered into partnership with USAID to strengthen the health sector and increase access to basic health services. With USAID assistance, the GOE is also taking steps to address two of the most sensitive issues in the region, the transition from military to civilian rule and the demobilization of ex-combatants and their families.

### **Strategic Objectives (SOs).**

USAID is focusing on the priority area of encouraging broad-based economic growth. Increasing the use of primary health-care and family planning is the principal initiative in support of economic growth. Additional economic policy and capacity building, demobilization, and refugee reintegration activities also support broad-based economic growth. A democracy and governance activity will begin in FY 1995. In addition, an upcoming analysis of the food security situation will help define a second SO in support of the achievement of food security.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$ 7,072,802)**

**SO 1. Increased use of enhanced primary health-care and family planning services (\$ 3,232,802 of which \$459,000 is for Stabilizing Population Growth).**

To rekindle Eritrea's economic development and promote broad-based growth, it is essential to raise the physical well-being and productivity of Eritrea's population. Eritrean women and children suffer from high morbidity and mortality rates due to preventable causes such as diarrheal diseases, malaria, acute respiratory infections and closely-spaced pregnancies. Contraceptive prevalence is less than 1%, and the total fertility rate is 6.8 children per woman. Without family planning, Eritrea's population will double in 23 years.

The existing health-care delivery system cannot address these problems due to a dearth of trained personnel and a severely damaged and deteriorated infrastructure. By strengthening the core set of health-care management systems (e.g. financial controls and planning, supervision, and training), and by selected infrastructure improvement, effective health-care delivery can be achieved and sustained. By improving the health profile of its population, Eritrea strengthens its most valuable resource and enhances its economic development.

Activities. Funds for health-care and family planning activities were first obligated in September 1994. Therefore, activities described below are in early stages. Improvements in health-care delivery will be achieved by increasing availability and access, quality, and awareness and demand. Availability of and access to health-care will be expanded through training health-care personnel at all levels; creating opportunities for greater private sector participation; and infrastructure improvements. The quality of health-care will be improved through modernizing the training offered at health-care training schools; developing standardized protocols for laboratory tests and treatments; improving supervision; and upgrading laboratories. The awareness of and demand for essential health and family planning services will be based on improvements in the Ministry of Health and the Family Planning Association of Eritrea and selected health-oriented non-governmental organizations (NGOs); community outreach programs; and targeted programs to educate policy makers and opinion leaders about health and population issues.

Related Activities. USAID's specialized assistance for the GOE's demobilization efforts also supports this SO. Those ex-combatants who served in paramedical capacities are being trained with the aim of upgrading their skills to both meet the need for better trained health-care personnel and to provide employment opportunities for ex-combatants.

All public and private sector planning in Eritrea is constrained by the almost total lack of information. Under this SO, USAID will contribute to the information base through supporting the development of a health information system, which includes conducting the first nationwide demographic health and nutrition survey.

Indicators. USAID indicators for measuring progress toward achieving this objective are a: (1) decrease in maternal, infant and child mortality rates; and a (2) decrease in the fertility rate. Numerical goals will be set based on initial data to be gathered during the first year of the program.

Feasibility and Cost-effectiveness. In order to expand the economy, Eritrea must have a reliable pool of workers with access to basic health-care services. Over the next five years, the activities described under the SO will assist in the rehabilitation of the health-care delivery system. The SO will also support the development of cost recovery mechanisms and increased participation of health-care oriented NGOs and the private sector in order to augment the resources and services of the public sector.

**Progress in 1993-1994.** Funds were obligated under this SO in September 1994. Progress has been limited to logistical start-up activities.

**Donor Coordination.** USAID has initiated dialogue with other donors in the health sector and has involved a number of them, including UNICEF, in the design of activities. Many donors are currently shifting from ad hoc emergency assistance to formulating development assistance programs. USAID's is the first major health sector bilateral activity in Eritrea. Interest shown by other donors augurs well for additional donor investment in the sector.

**Constraints.** A steadily growing economy is needed for Eritrea to meet the recurrent costs of a health-care system over the long run. Eritrea's relatively open and diversified economy, compared to other Sub-Saharan African countries, expanded by nearly seven percent in 1991 and 1992. However, poor agricultural performance slowed output growth in 1992/1993, delaying the ability of the GOE to fully assume its recurrent cost burdens.

#### **Cross-cutting Issues.**

**Economic Policy and Capacity Building (\$1,500,000).** The GOE is embarking on an ambitious economic reform program, transforming it from a state-controlled economy to one dominated by the private sector. USAID provides technical assistance, commodities and training in areas such as privatization, public sector enterprise, establishment of a financial sector and transition to a democratically elected government.

**Food Security (\$2,360,000 of which \$2,340,000 is for Economic Growth and \$20,000 is for Protecting the Environment).** Food insecurity has been identified as perhaps the greatest challenge facing the countries of the Greater Horn of Africa, of which Eritrea is a member. Food insecurity is both a cause and effect of economic and political instability in the region. The Greater Horn of Africa Initiative (GHAI) has been undertaken to deal with the issue of food security on a regional basis. The goal of the GHAI will be to build an enabling environment in which the population of the region will be able to achieve continuous food security with diminishing donor assistance. The GOE views food security as one of its key objectives in the agricultural sector. USAID plans to conduct an analysis of food security in Eritrea. Among the topics to be considered in the analysis are the constraints to food security and the environmental impact of food insecurity. The analysis will guide development of a second strategic objective. This strategic objective will focus on improvements in food security.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$4,060,000).**

P.L. 480 Title II resources will continue to address food security issues with a focus on food for work activities which will contribute to the critical area of infrastructure development.

#### **BUILDING DEMOCRACY (\$ 2,071,802).**

In addition to the activities described above, USAID will support democratic governance and popular participation in five areas: developing a democratic constitution; strengthening local government capacity to create an enabling environment for popular participation; supporting civic education; creating the foundations for educational public media and independent private media; and improving the capacity of local courts to administer justice fairly and competently.

#### **Other Donor Resource Flows.**

In 1993, the United States provided approximately 5% of all bilateral assistance provided to Eritrea. Leading bilateral donors are Italy, Germany, Sweden, Denmark and Norway.

**ERITREA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
<b>1. Increased Health-care and Family Planning Services</b>	3,232,802	459,000	--	--	3,691,802
<b>Cross-cutting Issues:</b>					
<b>Democratic/Governance</b>	--	--	--	2,071,802	2,071,802
<b>Economic Policy and Capacity Building</b>	1,500,000	--	--	--	1,500,000
<b>Food Security</b>	2,340,000	--	20,000	--	2,360,000
<b>P.L. 480, Title II</b>	--	--	--	--	4,060,000
<b>Total</b>	7,072,802	459,000	20,000	2,071,802	13,683,604



## ETHIOPIA

<b>FY 1996 Development Fund for Africa Request:</b> .....	<b>\$36,070,282</b>
<b>FY 1996 Development Assistance Fund Request:</b> .....	<b>\$5,017,000</b>
<b>FY 1996 P.L. 480 Title II Request:</b> .....	<b>\$32,353,000</b>
<b>FY 1996 P.L. 480 Title III Request:</b> .....	<b>\$34,000,000</b>

With a per capita gross domestic product of \$120 per year, Ethiopia is the second poorest nation in the world. However, Ethiopia is of significant post-Cold war importance to the United States. With a population of 54 million, location in the center of the Horn of Africa and proximity to the Red Sea shipping lanes, Ethiopia is potentially a major regional center of political and economic importance. After almost a generation of civil war and a brutal, Marxist dictatorship under Mengistu Haile Mariam, the Transitional Government of Ethiopia (TGE) has been making steady, if hesitant, progress toward establishing a market economy and a democratic government. If Ethiopia can make this transition successfully, it could become a model of peace and stability in a historically troubled region. Ethiopia is also a bulwark against the increasing problems of violent, Islamic fundamentalism in Sudan and Somalia. As a result of famine and civil strife, Ethiopia has been a perennial recipient of massive amounts of humanitarian assistance. From 1984 to 1991, the U.S. Government provided approximately a billion dollars in humanitarian assistance. Although this assistance saved millions of lives in Ethiopia, it did little to prevent the crisis from recurring. Because of these factors, Ethiopia is critical to the success of the President's Initiative on the Greater Horn of Africa (GHAI). The TGE has been helpful to U.S. Government policy objectives in the region and has offered to play a leadership role in the GHAI. The United States enjoys a growing trade surplus with Ethiopia. In 1992, U.S. goods accounted for approximately 20% of Ethiopia's imports. Ethiopia could become an important African market for U.S. goods as it develops.

### **The Development Challenge.**

The process of transforming Ethiopia is made difficult by widespread poverty, the historical lack of democratic traditions, and weak or non-existent infrastructure. Social indicators are among the worst in the world, and in many instances, worse now than 20 years ago as result of the previous government. Over half of Ethiopia's population lives in abject poverty. In urban areas, most of the population lives below the poverty line and a third are the "poorest of the poor." With domestic calorie availability of 1500-1600 per person per day, (measured against the World Health Organization recommended daily minimum intake of 2300), Ethiopia has severe malnutrition with approximately 60% of all children under five chronically undernourished. For the first time in a generation, the United States and other donors have an opportunity to help Ethiopia achieve sustainable economic development and a level of food security that will reduce the need for continuing outside emergency assistance.

### **Strategic Objectives (SOs).**

USAID is pursuing four strategic objectives in the areas of food security, health and population, basic education and building democracy. Given Ethiopia's chronic food insecurity, USAID will help ensure the prompt provision of humanitarian assistance as needed.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$64,018,474 including \$27,903,000 DFA, \$2,115,000 DAF and \$34,000,000 P.L. 480 Title III).**

**SO 1. Increased availability of staple foods with emphasis on domestic production (\$9,202,900 of which \$6,954,000 is for Economic Growth and \$2,248,900 is for Protecting the Environment).**

Eighty-five percent of the population in Ethiopia is rural and dependent on small-scale agriculture. While having some of the most productive farmland in East Africa, the country consistently suffers

from major food shortfalls, even in years of good harvest. Low productivity and the need for significant food-aid imports resulted from the former government's Marxist policies, which imposed complete state control over the agriculture sector. As a result, Ethiopia's agricultural production is unable to keep up with the population growth rate. In addition, many Ethiopians cannot afford what food is available. With free market incentives for production, Ethiopia can move towards producing more food which is less expensive.

**Activities.** From FY 1992-1994, USAID promoted food security by focusing on accelerating policy reforms necessary for increasing agricultural productivity and free-market operations by eliminating government monopolies in production and marketing activities. Support focused on increasing supply and access to fertilizer and eliminating major transport disincentives. The P.L. 480 Title III program provided agricultural commodities to develop a targeted food safety-net program to meet the needs of Ethiopia's vulnerable population, promoted a greater role for the private sector in agricultural trade and increased productivity through the expanded utilization of industrial capacity. A new program will directly confront food-production constraints and aims to encourage farmers to increase production and productivity. This will (1) increase incomes of farmers; (2) improve household food security of both producers and consumers; and (3) begin to reduce the massive national food deficit. The program will finance extension of farm interventions and information that can enhance productivity, relying primarily on existing technology, agricultural research and extension findings. The program will also support efforts to re-establish and strengthen agricultural and microenterprise information collection and analysis capability.

USAID will encourage sustainable agricultural production through the Food System Development project with both project and non-project assistance. The primary objective will be to assist Ethiopia to feed itself using agricultural and resource management practices that prevent further environmental degradation. Support for the development of a rural banking system related to production credit and financing for micro-enterprises will also be explored.

**Indicators.** Indicators for measuring progress are: (1) increased availability of fertilizer; (2) reduced government regulation and intervention in transport and commodity production, marketing and distribution; (3) increased production of major cereals and pulses by 6% by 1998 in the focus region; and (4) increased access to major cereals and pulses in food deficit areas.

**Feasibility and Cost-effectiveness.** Despite its agricultural resource base, Ethiopia has one of the lowest agricultural yields in Africa. Cereal, pulses and oilseed yields are 50-75% lower than neighboring Kenya. USAID assistance in expanding the supply of fertilizer to Ethiopian farmers strikes at the heart of this low agricultural productivity. Increases in domestic production mean reductions in food-aid imports. For every additional bag of fertilizer used, farmers can get up to five bags of grain with associated rates of return of approximately 150%. In 1994, USAID provided \$12.5 million for fertilizer, more than half imported through the private sector. In addition, USAID efforts to improve and strengthen Ethiopian grain markets has meant that farmers have received better prices for their products, market margins have declined, the number of traders in the markets increased and long-term consumer prices have declined. Further work on market liberalization and strengthening government's role in market management could produce added benefits by eliminating the large and volatile consumer price spikes that adversely affect poor consumers.

**Progress in 1993-1994.** Progress has been made on fertilizer liberalization: fertilizer sales in 1994 rose to 183,000 metric tons (MT) from 105,000 MT the previous year. The major fertilizer parastatal has been restructured, thereby providing more opportunities for private sector wholesalers and retailers. Licensed fertilizer traders have increased from 114 in 1992 to 1,518 in 1994 and private sector imports of fertilizer have doubled between 1993 and 1994. The TGE has announced that fertilizer prices will be fully decontrolled by 1998. Most state monopolies on distribution and sales of commodities have been eliminated. To complement government withdrawal from subsidized food marketing, the TGE developed a safety net program to cushion possible short-term adverse effects of

reform on the poor. The safety net has benefitted an estimated 350,000 households and 35,000 retrenched workers and demobilized soldiers in 1993-94. The TGE also established an emergency food security reserve that non-governmental organizations (NGOs) can borrow against until donor food pledges arrive, ensuring that emergency food aid will get to the needy in time. The TGE has made some progress in liberalizing transport controls and opening up trucking to the private sector, with an increase in private freight forwarders from zero in 1992 to 26 in 1994.

**Donor Coordination.** USAID involvement in fertilizer imports and as a vocal actor on agricultural policy issues has quickly put USAID in a lead position among donors involved in agriculture. There are regular donor meetings involved in fertilizer provision and there are plans to constitute a donor forum on agriculture issues. Several major studies funded by USAID have received wide attention and established our technical staff as a reliable, well-informed source of information on the sector. The other major donors are the European Union, the World Bank and the Food and Agricultural Organization (FAO).

**Constraints.** Fertilizer demand in Ethiopia is likely to decrease in the short term in the face of sharply increased world market prices that would translate into a 60% increase in the cost of fertilizer to farmers. This will result in lower rates of agricultural production and continued needs for imported foods. The TGE faces the difficult choice of increasing subsidies on fertilizer or accepting lower production and increased food imports in the context of continuing high food deficits. In the transport sector, sluggish TGE actions on privatization of the state-owned long haul fleet has continued their exclusive position as rate setters in this important market segment, continuing to discourage private investment in long haul vehicles.

**SO 2. Key aspects of the rural health care delivery system rebuilt and re-oriented (\$15,724,614 of which \$9,564,000 is for Economic Growth and \$6,160,614 is for Stabilizing Population Growth).**

Ethiopia's health care is among the worst in the world, with fewer than 20% of Ethiopians having access to modern health care. At a current population growth rate of 3%, Ethiopia's population will exceed 145 million by 2025. The average woman will have seven children, and 23% of them will not survive past the age of five, due to a profound lack of access to primary and preventive care. By the year 2000, an estimated 1.4 million Ethiopians could be infected with HIV.

**Activities.** To date, activities have focused on support for the National AIDS Control Program (NACP), which has already expanded coverage significantly. A comprehensive health and population program is expected to start early in 1995. This program will focus on policy reforms to: (1) increase resources allocated to the health sector; (2) re-orient services more towards prevention of infant and child mortality; (3) institutionalize cost recovery and local financing; and (4) focus resources on community health care delivery, particularly on child survival. Project assistance will be concentrated in a focus region on: (1) a contraceptive social marketing program; (2) support to an indigenous NGO outreach family planning program; (3) strengthening the NACP; (4) developing and implementing a health care financing strategy and logistics management information system; (5) demographic and health surveys; and (6) enhanced rural health care service delivery to improve maternal and child health. Significant efforts are aimed at donor coordination, regional and central government programs, and nurturing partnerships with the NGO community.

**Indicators.** By the year 2000, (1) reduce infant, child and maternal mortality by 5% in the focus region; (2) increased use of family planning services as evidenced by contraceptive prevalence increases from 14% to 20% in urban areas and from 2% to 7% in the focus region; and (3) a 5% reduction in selected sexually transmitted diseases (STDs) in the focus region.

**Feasibility and Cost-effectiveness.** Cost-effectiveness of the program is positive, with preliminary analyses indicating low cost of family planning interventions at about \$19 per couple year of protection (CYP). Policies which concern decentralization and health care financing also contribute to increased

efficiencies and reduced per capita costs, which in turn improve the cost benefit of USAID's investment. Reductions in childhood mortality will respectively improve community productivity and increase the potential for production over the long term. Lowered trends in population growth will over time improve per capita income, reduce dependence on donor food aid and reduce government expenditure requirements on social services, thus realizing savings at the national level.

Progress in 1993-1994. The Support to AIDS Control project has expanded program coverage of the NACP since 1993. Nearly 20 million condoms have been sold in over 8,000 outlets and over two million condoms have been distributed free by the NACP. Four STD laboratories have been rehabilitated; 10 clinics have been refurbished; and Ethiopian NGOs have reached over 21,000 teenagers with education programs about prevention methods. A recent evaluation noted that there is clear evidence of improved public and private sector capacity to diagnose and manage STDs; that HIV/AIDS education efforts in schools are reaching key audiences; and that the condom social marketing program is increasing sales. USAID fostered the formation of an NGO consortium active in the provision of family planning and maternal and child health services.

Donor Coordination. USAID spearheaded the establishment of a health sector donor coordination group. The group has provided an effective mechanism for communication among donors and government representatives about activities and technical issues which directly relate to donor programs. USAID has been in the lead on issues such as health care financing, AIDS and family planning among NGOs. Since the sector is grossly underfinanced, USAID involvement is further justified by the direct link between improved health status and productivity.

Constraints. Although the TGE has increased the health sector budget, it continues to be underfinanced. Government policies are anchored in central control and hindered by poor rural distribution. Health care workers are ill-prepared and ill-equipped. High child mortality discourages the use of family planning services. Patient confidence has eroded to the point that patients do not seek care in existing facilities.

### **SO 3. Quality and equity of primary education improved in an expanded system (\$13,500,474).**

The educational system is not serving Ethiopia's future generations in terms of the quality of the education received and access to schools. Only 20% of the children are enrolled in primary school, with even lower rates for girls and rural children. Most of those who gain entry are denied any semblance of a quality education. It is estimated that significantly less than half of the adult population can read or write and the average education of the workforce is a mere 1.1 years. These distressing statistics place Ethiopia close to the bottom in terms of the quality of its human capital. It is certain that sustainable economic growth cannot be achieved without a much broader and stronger human resource base.

USAID assistance is aimed at helping the elementary school system deal in an effective and affordable way with the competing needs for rapid and equitable expansion and quality improvement. The returns to this assistance will not be rapid but will be significant and critical for Ethiopia. USAID involvement in rebuilding the primary level of education is essential to ensuring the establishment of a sound beginning point in a educational system seriously degraded as a result of 17 years of socialist abuse.

Activities. USAID assistance is being directed at increasing the quality and equity of learning and strengthening system financing and (decentralized) administration, both through interventions at the national level and within two focus regions. Targeted support will also be provided in these regions for improving the preparation of newly recruited primary school teachers, developing more relevant curricula, and providing more and better instructional materials to schools. National level support will be provided to aid in the implementation of needed policy reforms embodied in the recently enacted national education policy.

**Indicators.** Provisional indicators for measuring progress are: (1) a 15% increase in fourth grade completion rates; (2) a reduction of two years in the primary school average completion cycle; (3) a 13% increase in primary school enrollment; and (4) improved quality and equity profiles of schools and students.

**Feasibility and Cost-effectiveness.** The basic education program is in direct support of the TGE's new national education policy. USAID assistance will encourage and facilitate implementation of this policy and leverage additional donor and government resources for primary education. USAID support to the sector, planned at \$80 million over seven years, had been found, through an economic and financial modeling exercise to be cost-effective, yielding an internal rate of return of 40%, a result which proved robust due to its relative insensitivity to key assumptions on system growth and costs.

**Progress in FY 1993-1994.** This program started in September 1994 and initial implementation steps are underway. Strong working relationships have already been established with the local and national educational officials. Major reforms have been approved positively affecting teachers salaries and career structures, female entry rates at Teacher Training Institutes, and the primary teacher education program. Several more USAID-advocated reforms are being analyzed and readied for consideration by policy-makers, in some instances based on a computer model of the education sector developed through USAID support.

**Donor Coordination.** USAID has re-established itself as a leader among donors involved in the education sector. It was instrumental in establishing the Ethiopian Donors Group for Education and has become a major player in setting meeting agendas and articulating common donor positions on sector policy and strategy. These donor coordination meetings have become an important opportunity to share the results of critical studies, which have been carried out with USAID support. Due to this heightened role and vocal concern for system level change, USAID has been able to influence approaches being taken or considered by other donors active in the sector.

**Constraints.** A substantial number of schools were destroyed in the civil strife. Even with increased government resources going to education, the sector is seriously underfinanced. Low potential for off-farm employment, because of overall economic stagnation, has resulted in a perception that schooling is irrelevant to rural life. In addition, there is a lack of further educational opportunities beyond primary school.

**BUILDING DEMOCRACY (\$2,659,294 including \$2,459,294 DFA and \$200,000 DAF).**

**SO 4. Increased access to and participation in a conciliatory, democratic transition process (\$2,659,294).**

Ethiopia's prospects for stability and sustainable development hinge upon liberalizing Ethiopia's historically authoritarian mode of governance, an ambitious and risky process. Since 1992, the policy of the United States has been to accelerate, facilitate and encourage the development of institutions and processes which underpin democratic societies. Since the resumption of development assistance in FY 1992, the provision of this assistance has been clearly linked to continuing progress toward a democratic society.

**Activities.** USAID has provided assistance to the TGE in designing and adopting democratic policies and practices and to public and private institutions which could play roles in this transition. Support has been targeted to: (1) the organization and implementation of open national and regional elections; (2) the drafting of a new constitution; (3) judicial reform for the protection of human rights and the institutionalization of the rule of law; (4) the promotion of an independent and responsible media; and (5) the development of increased capacity for regional self-government. In 1994, support was specifically introduced for indigenous civic organizations.

Indicators. Emergence of an institutional basis for an increasingly democratic society.

Feasibility and Cost-effectiveness. Recent emphasis on democracy and governance by the U.S. Government as a necessary prerequisite to sustainable development makes the precise calculation of feasibility and cost effectiveness somewhat problematic. USAID has found that democracy and governance is an area that is much more costly in terms of personnel time and management intensity than in actual financial resources. But USAID believes that the relatively small investment in this area can have significant spillover effects in other areas of programmatic involvement. Through continued thoughtful and effective project management, effective monitoring and evaluation procedures, engaging appropriate partners in project implementation, and the continued ability to take advantage of targets of opportunity as they arise, project assistance in the democracy and governance area will have a positive long-term impact on Ethiopia.

Progress in FY 1993-1994. The project has been most active in the electoral, constitutional and judicial/human rights areas. A second nationwide election was held in June 1994, and in contrast with an election two years ago, this one received good marks on organization and administration. However, it suffered from a lack of participation by opposition groups, who continue to resist efforts at reconciliation. Civic education efforts linked to the election were an area of considerable success although much more remains to be done. Successful initial efforts are being expanded working through both external and indigenous NGOs. The process of drafting, holding nation-wide debates and reviews on a new constitution has been concluded and the Constituent Assembly elected this year has debated and approved the constitution which provides basic guarantees of democratic rights. Elections are now planned for May 1995 to elect representatives for a new national government. A wide range of technical and small-scale material assistance has been provided to improve the capacity and efficiency of the regional justice system.

Donor Coordination. A firm pattern of coordination and communication among the ambassadors of major countries represented in Ethiopia was established from the birth of the transition government. This has been institutionalized at the ambassadorial and technical levels, including the United Nations and World Bank. The U.S. Government plays an informal lead role in these donor groups.

Constraints. Ethiopia has no experience with democratic traditions and no tradition of political tolerance or legal opposition. Its history has been characterized by violence, suppression of differences, ethnic hatred, and a desire to concentrate power rather than share it. The Mengistu regime destroyed the institutions necessary for good governance, including the judiciary. There is little understanding of the concept of personal liberty which has resulted in human rights abuses. The TGE must rebuild these institutions, educate the populace on democratic values and address human rights abuses with limited resources and little experience. Further, it must create conditions favorable to democratic politics and the opposition must take the opportunities afforded.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$32,353,000).**

**Cross-Cutting Issue: Emergency humanitarian assistance to Ethiopia's most vulnerable groups provided in a timely manner (\$32,353,000 of P.L. 480 Title II).**

Ethiopia suffers from chronic food deficits that have in the past resulted in the deaths and displacement of millions of people as well as the loss of many of the poor's productive assets. From 1984 to 1991, humanitarian concerns led the U.S. Government to provide over a billion dollars in humanitarian assistance.

Indicators. USAID works to ensure: (1) a decrease in deaths due to starvation; (2) a decrease in loss of productive assets for the most vulnerable groups; and (3) a decrease in displacement of the population.

**Activities.** Since the resumption of development assistance in FY 1992, USAID has increasingly tried to integrate planning and implementation of relief and development assistance to Ethiopia. Steady progress has been made in programming and utilizing P.L. 480 Title II emergency and regular and Title III food aid programs. These programs support a portfolio of Food for Work, development, relief and food safety net activities. The ability of USAID to flexibly program Title III resources in 1994 was a major factor in our being able to assist the TGE avoid what could have been a major food crisis.

**Feasibility and Cost-effectiveness.** The television images of truck convoys crossing dusty Ethiopia mountain passes attest to the large-scale relief efforts which have been underway for the last decade. In that time, a substantial relief infrastructure was built up at a significant cost to donors. However, the value of that donor investment has been demonstrated in 1994 when one million MT of food aid (equal to what was shipped in 1984) was moved to drought-stricken populations and effectively prevented famine and mass migrations. Despite donor successes at moving food aid, Ethiopians still do not have an adequate caloric intake. While food intake needs to increase, relief efforts have managed to keep farmers on their land where they can benefit from development efforts intended to boost agricultural productivity. In 1994, the U.S. Government contributed 387,676 MT of food aid to help an estimated 6.7 million people, representing an expenditure of only \$17 per person. Given the scale of suffering seen in Ethiopia when relief has not come, USAID believes this cost is justified.

**Progress in FY 1993-1994.** Following the better than average harvest in 1993, Ethiopia faced a food shortfall of approximately 1 million MT in 1994. In contrast to the past two governments in Ethiopia, the current government has dealt with the situation openly and aggressively. While this shortfall is comparable to the great famine of 1984 to 1985, there were not a large number of deaths and very little displacement due to the timely and effective provision and distribution of food aid. The U.S. contribution was the largest single contribution and was key in both its timing and magnitude in avoiding major suffering. Projections for 1995 indicate there will be somewhat reduced shortfall and that it can be met with carryover stocks of food from 1994 and commitments already made by major donors.

**Donor Coordination.** Mechanisms and groups, developed over the past decade for coordination in planning and implementation of relief efforts, have been retained. These include monthly reporting on planned and accomplished commodity imports and distribution from a United Nations-assisted unit of the Government's Relief Commission. Inter-donor coordination is good, with the World Food Program taking a lead on coordination, with emphasis on the European Union and United States, who are consistently the largest donors.

**Constraints.** Even with increased agricultural production, Ethiopia will continue to have food deficits for years to come. While sufficient food assistance has been provided by the donor community in recent years, there are serious problems getting it out to those in need because of the inaccessibility of some deficit areas, as well as limited port and transport capacity. Internal transport is improving as trucking is deregulated and privatized, but the basic road structure is lacking. Port infrastructure in Eritrea and Djibouti, which Ethiopia must depend on, is also limited, poorly maintained and requires major new investments which are not currently available.

#### **Other Donor Resource Flows.**

USAID assistance accounted for approximately 12% of all donor assistance in Ethiopia in 1993. The largest donor in Ethiopia is the World Bank. Other donors include the United Nations agencies, such as the United Nations Development Program and the World Food Program, the African Development Bank, Germany, Great Britain, Sweden and Italy.

**ETHIOPIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
<b>1. Increased Availability of Staple Foods with Emphasis on Domestic Production</b>						
Dev. Fund for Africa	6,714,000	--	2,248,900	--	--	8,962,900
Dev. Assistance Fund	240,000	--	--	--	--	240,000
<b>2. Key Aspects of the Rural Health Care Delivery System Re- built and Re-Oriented</b>						
Dev. Fund For Africa	8,089,000	3,458,614	--	--	--	11,547,614
Dev. Assistance Fund	1,475,000	2,702,000	--	--	--	4,177,000
<b>3. Quality and Equity of Primary Education Improved in an Expanded System</b>						
Dev. Fund For Africa	13,100,474	--	--	--	--	13,100,474
Dev Assistance Fund	400,000	--	--	--	--	400,000
<b>4. Increased Access to and Participation in a Conciliatory, Democratic Transition Process</b>						
Dev. Fund for Africa	--	--	--	2,459,294	--	2,459,294
Dev. Assistance Fund	--	--	--	200,000	--	200,000
<b>Cross-cutting Issues:</b>						
P.L. 480 Title II	--	--	--	--	32,353,000	32,353,000
P.L. 480 Title III	34,000,000	--	--	--	--	34,000,000
<b>Total</b>	<b>64,018,474</b>	<b>6,160,614</b>	<b>2,248,900</b>	<b>2,659,294</b>	<b>32,353,000</b>	<b>107,440,282</b>

USAID Mission Director: Margaret P. Bonner



## THE GAMBIA

**FY 1996 Development Fund for Africa Request: . . . . . \$1,841,046**  
**FY 1996 P.L. 480 Title II Request: . . . . . \$2,088,000**

On July 22, 1994 a military coup occurred in The Gambia, thereby reversing thirty years of elected rule. The new government formally announced its intention of maintaining its liberal macroeconomic framework, honoring its international debts, and continuing with its major development and adjustment programs. Due to the coup, the provisions of Section 508 of the FY 1994 Appropriations Act were invoked which required the cessation of direct assistance to the Government of The Gambia (GOTG). Prior to the coup, the United States considered The Gambia to be a model for democratic governance in the region. U.S. assistance to The Gambia supported U.S. interests in promoting market-based economic growth and protecting the environment. Under section 508, U.S. national interest justification is required to permit U.S. assistance through non-governmental organization (NGO) programs that address U.S. interests in The Gambia.

### THE DEVELOPMENT CHALLENGE.

The Gambia's per capita income of \$330 ranks it among the low income countries of the world. Although the country's population of one million is small, the population density is already twice that of Senegal or Kenya. The natural resource base is rapidly deteriorating due to a high annual population growth rate of 4.1% and the steady decline in rainfall that has been prevalent throughout Sahelian Africa.

The GOTG began a successful structural adjustment program in 1985 which made significant progress towards creating a stable economic environment by instituting market-determined interest and exchange rates, removing agricultural subsidies, privatizing parastatals, decreasing the fiscal deficit and reducing inflation. However, a rapidly growing population and environmental degradation coupled with a lack of natural resources and a very low literacy rate (27%) have impeded economic growth and development. In addition, the economy has been hit with a series of external and internal shocks which have destroyed its reexport trade, horticultural trade, and tourist trade, the backbone of the formal economy and the primary sources for earning foreign exchange. Since The Gambia is dependent on imports for all of its flour and sugar, and for 70% of its rice requirements, the loss of those industries generating foreign exchange will seriously threaten the country's food security.

The military coup has exacerbated the development challenge. Business and general public confidence has plummeted, however, the economy has not shown drastic signs of decline, as yet. This is due to the simultaneous decline in both supply and demand since the coup. Over the longer term, the economy is expected to deteriorate more severely, should the situation continue on its present course. Therefore, by remaining engaged to promote the return to democracy, the established democratic backbone of The Gambia can be revived, thus averting a more severe crisis, that could spread regionally.

### STRATEGIC OBJECTIVES (SOs).

USAID's strategy in The Gambia prior to the coup included two strategic objectives. The coup required the cessation of all direct assistance under these SOs. The NGO activities, now in the planning phase, will fall under one strategic objective and will include food aid support.

### BUILDING DEMOCRACY (\$1,704,000).

SO 1. Promote the Return of a Democratically Elected Government (\$1,841,046, of which \$1,704,090 is for Building Democracy, \$32,956 is for Protecting the Environment, and \$104,000 for Economic Growth).

This strategic objective will support the programs of NGO's to educate and strengthen civil society through community-level training and enhance the institutional capacity of intermediary organizations and advocacy groups such as the media, educational institutions, rural community and farmer organizations, civic groups and business associations to broaden participation in local politics and national policy dialogue. Electoral assistance will also be provided, as required.

**Activities.** Under this strategic objective, activities will be designed to strengthen civil society through education at the community level with activities that increase the effectiveness of local organizations which represent the interests of Gambians. Under the proposed activities, USAID will support the programs of NGO's whose activities: (1) enhance understanding of democracy and good governance; (2) promote local participation and civic responsibility in community decision making; (3) train key individuals and groups which support local initiatives to encourage the return of democratic rule; and (4) facilitate communication for civil society building, and networking and action research for community development and related developmental issues.

Program beneficiaries will include adults and youth especially in rural areas, community leaders and NGO staff. Women and girls will be especially targeted as beneficiaries, through concentrated attention on grassroots organizations that address women's concerns and problems.

This program includes the following components:

- Civic Education - A technical consulting facility will provide development communication services to U.S. private voluntary organizations (PVO's) represented in The Gambia; indigenous non-governmental organizations (NGO's) including community organizations; and U.S. Peace Corps Volunteers and their counterparts. Services include preparing programs which address weaknesses in civil society and developing educational materials that explain the linkages between a strong civil society and development problems, such as centralized government decision making, rapid population growth and family health.
- Community Grants - Small grants will help community clubs and organizations develop community education messages about governance, civic rights and responsibilities; facilitate the transfer of knowledge; and conduct activities to get Gambians more actively engaged in grassroots democracy.
- Strengthening Local Organizations - Grants will be made to: (1) community grassroots organizations; and (2) intermediary organizations which represent Gambians' interests such as advocacy groups, and cooperative organizations and professional associations.
- Electoral Assistance - Assistance will focus on voter education and community level dialogue, in the short-term.
- Assistance for U.S. Peace Corps/The Gambia - Funds will be transferred to the U.S. Peace Corps to train PCV's and their counterpart teachers and community leaders to sponsor small community development projects.

**Related Activities.** In support of the democracy program, USAID will utilize the services provided by the Africa Bureau regional, cross-cutting programs to promote economic growth and environmental protection, during this period of transition back to democracy. This is particularly important because of the increased strain the economy presently faces.

**Indicators.** Progress toward achieving the objective will be measured by increases in: (1) the number of NGO's participating in civil society building educational programs; (2) the capability of civil society to manage their own affairs with less reliance on the state, as evidenced by self-sufficiency criteria to be developed; and (3) the number of indigenous, non-governmental organizations (NGOs) that activate their own programs to promote the return to democracy.

**Feasibility and Cost-effectiveness.** The Gambia needs to return to an elected democracy, in order to restore public confidence and to continue on its development course. Without this, the hopes of maintaining and building on the impressive past development gains are slim. The recent decision by the Gambian Government to return to democratic rule by June of 1996 is a positive sign of the feasibility of this plan of action. The costs of not pursuing a return to democracy are great when weighed against the cost of humanitarian assistance, should the situation deteriorate and spread beyond Gambian borders.

**Donor Coordination.** USAID coordinates closely with the German aid agency, the United Nations Development Program (UNDP), the World Bank, the International Fund for Agricultural Development and the European Community which have programs in government reform, environment, sustainable agriculture and natural resources management, that can be used to leverage actions toward faster return to democracy. USAID will collaborate with the UNDP and other donors to develop a multi-donor democracy and governance program that will include electoral assistance and human rights assistance, civic education and judicial reform support. USAID will also assist other donors such as the UNDP prepare functional literacy materials, particularly those related to civil society strengthening.

**Constraints.** The situation in The Gambia risks deterioration, because of the young, inexperienced military leaders. This change in leadership is likely to lead to an erosion of the open economic policies of the former regime, although to date, there is not evidence of overwhelming erosion taking place. USAID concentration on strengthening the local organizations not only addresses the essential issue of building community self-sufficiency to help safeguard food security under military rule, but also builds the capacity of the grassroots civil society for the return to an even stronger democracy. The latter was a key weakness of the Gambian democracy.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$2,088,000).**

USAID's P.L. 480 Title II program provides essential nutrition to lactating women and their children in rural areas. In addition, through a monetization grant, USAID will continue to support the 50,000 women members of the Sesame Growers Association to promote the production and export of sesame as well as to build the capacity to identify and implement other activities to enhance economic well being. These activities are increasingly important, as the level of economic activity slows under the military regime. The returns for the 50,000 women and their families have been tremendous. 500 tones of sesame seed will be exported to Europe this year under a recently signed marketing agreement.

#### **Other Donor Resource Flows.**

In FY 1993, the United States was the second largest donor to The Gambia, providing 13.87% of all donor contributions. Other major donors included Japan, the International Development Association, the European Fund and the African Development Bank Fund.

**THE GAMBIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
USAID Strategic Objectives						
Return to democracy	104,000		32,956	1,704,090		1,841,046
P.L. 480, Title II					2,088,000	2,088,000
Total	104,000		32,956	1,704,000	2,088,000	3,929,046

USAID Representative: Rose Marie Depp

## **GHANA**

**FY 1996 Development Fund for Africa Request: . . . . . \$39,749,412**  
**FY 1996 Development Assistance Request: . . . . . \$5,545,000**  
**FY 1996 P.L. 480 Title II Request: . . . . . \$8,611,000**

Ghana, with a population nearing 16 million and a per capita Gross National Product (GNP) of \$450 per year, is ranked among the low income countries of the world. It is a young democracy, deeply engaged in a program of economic adjustment to foster and sustain broad-based economic growth. U.S. assistance to Ghana (7% of donor aid) supports U.S. interests in promoting democratic governance and free-market development. Ghana has taken major steps in terms of establishing democratic institutions: a constitutional democracy was established in 1992 and a President was elected under that democratic process. National Presidential and Parliamentary elections are scheduled for 1996. Ghana is also a lead country in economic reform and committed to providing an environment more favorable to private sector investment and export. U.S. interests in promoting regional stability in Africa have also been well served by the pivotal role played by President Rawlings in pursuing a peaceful settlement of the conflict in Liberia.

Since 1983, Ghana has pursued free-market policy reforms and become increasingly attractive for U.S. trade and private investment. Ghana has also demonstrated a clear commitment to slowing population growth. In addition, Ghana is becoming an increasingly important destination for Americans seeking to learn more about the contributions of Africa to American history and culture. For these reasons, Ghana is proving to be a good partner of the United States in West Africa and a country which is well placed to use U.S. assistance effectively.

### **The Development Challenge.**

By the time Ghana began its Economic Reform Program in 1983, its economy and social sectors were in shambles after years of mismanagement and state control. Although Ghana has achieved significant improvements over the past 12 years, poverty is prevalent, with average incomes at \$450 per capita, and education, health and food security for large portions of the population still inadequate. Ghana also remains overly dependent on a few export commodities, notably cocoa and gold. As the democratic reforms progress, demands on the public sector have increased. The Government of Ghana (GOG) is currently grappling with how to contain budget deficits and control inflation.

The Government of Ghana has taken meaningful steps to privatize state-owned enterprises, maintain macro-economic stability and enhance its food security. Its programs to promote economic growth, through investments in human capital -- especially primary education -- and through efforts to diversify exports require external assistance. It also needs assistance to stabilize population growth, to stay the course with democratic reforms, to make public institutions more accountable to local communities, and to address the humanitarian needs of its most vulnerable populations.

### **Strategic Objectives (SOs).**

The USAID/Ghana program is focussed on three strategic objectives. Limited assistance is also provided in areas that underpin all three SOs: Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS) prevention, child survival, building democracy, and natural resource conservation and historic preservation.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$27,199,676).**

**SO 1. Increased Private Sector Non-Traditional Exports (\$19,263,976 of which \$17,979,676 is for Economic Growth, and \$1,284,300 is for Protecting the Environment).**

Ghana has demonstrated substantial potential for the development of non-traditional export products such as horticulture, seafood, wood, specialty textile, and other manufactured products. Non-traditional exports increased from \$1 million in 1983 to \$68 million in 1992. The development of non-traditional exports (NTEs) will help Ghana to overcome its dependency on a few commodities and will promote growth in incomes and employment.

**Activities.** The five-year, \$80 million Trade and Investment Program (TIP) addresses obstacles that limit private sector investment and production support. One major thrust of TIP is improving the environment for private sector export firms through policy reforms, streamlining regulations and procedures, and upgrading export infrastructure. A second element of TIP assists in identifying and developing export markets, improving production capability of exporters, packaging viable projects for investment funding, production of small holder products for exporters and development of artisanal crafts.

**Related Activities.** TIP is complemented by the Human Resource Development Assistance Project which provides in-country training for local entrepreneurs, assistance for development of local training institutions, third-country training and observation tours for senior personnel and managers of private businesses and private sector associations, and study tours and entrepreneurship training in the United States and third countries.

USAID support to environmental activities under SO 1 includes assisting the GOG to set aside a 370 square mile national park and forest reserve in Ghana's Central Region, and support for the preservation and partial restoration of three fortifications dating back to the 15th century which have been designated as world historical sites under international conventions. The increased tourism generated in these activities will be an important source of foreign exchange. USAID is also assisting in establishing an environmental monitoring, evaluation and mitigation plan for the non-traditional export sector. The plan assists the GOG in its efforts to monitor environmental impact in the horticultural, salt mining, wood processing and shrimp farming industries.

**Indicators.** The program is expected to result in growth in non-traditional exports from \$68 million in 1992 to \$250 million in 1997, and to generate 60,000 new jobs.

**Feasibility and Cost-effectiveness.** TIP is helping to improve the environment for private sector trade and investment, while addressing key management and information needs of firms in the NTE sector. A number of studies have identified several marketing opportunities for Ghana's non-traditional exporters which are currently being developed. TIP assists firms to take advantage of existing resources and marketing opportunities. Moreover, TIP assists firms of different sizes, and reaches out to women-owned firms and associations.

**Progress in 1993-1994.** TIP has stimulated the GOG to take steps to improve the business environment. As a result, in March 1994, the GOG adopted a revised Investment Code which is more conducive to private sector investment. The GOG has also removed regulatory bottlenecks facing exporters, such as export pre-payments and restrictions on retention of foreign exchange earnings. Registration of investments has climbed from 211 in 1991 to over 600 by September, 1994 and applications for foreign direct investment increased from 250 in 1992 to 470 by September, 1994. Funds generated from P.L. 480, Title III, rice sales are used to rehabilitate farm-to-market roads, lowering the cost of moving export goods to and from rural areas.

TIP has assisted Ghana to increase its non-traditional exports from a rate of \$5.7 million per month in 1992, to \$9.5 million per month during the first six months of 1994. Through a grant to the African Project Development Facility, eight firms that received assistance in business planning, and identification of funding sources increased their investments by \$14 million in 1993. The International Executive Service Corps (IESC) assisted four exporters to double exports. IESC and Technoserve have assisted pineapple farmers to increase productivity and exports, with small-holder farmers enjoying many of the benefits of the increased sales. Technoserve has brokered a large export deal for processed shea nuts with a U.S. firm; the main beneficiaries of the shea nut project are women in remote rural areas. In addition, Aid-to-Artisans has assisted small handicraft manufacturers to secure contracts with firms such as J.C. Penney, Pier I and the American Merchandizing Company.

Donor Coordination. USAID assistance for NTEs is coordinated with assistance from other donors, notably the World Bank's Private Enterprise and Export Development Program which was designed to provide credit in concert with the technical assistance provided under USAID's TIP.

Constraints. High inflation, high interest rates and the eroding value of the Ghanaian *cedi*, stemming from the GOG's deficit financing, are having adverse effects on the cost structures of non-traditional exporters. Many firms are having difficulties in securing credit for working capital or investment because of weaknesses in the financial system and their own risk profiles. USAID is attempting to help break the credit bottleneck through consultations with affected firms, financial institutions, regulatory agencies and concerned donors.

### **SO 3. Improved Quality of Primary Education (\$8,000,000).**

Ghana once had one of the best education systems in Anglophone Africa, but spending on education declined from 6.4% of gross domestic product in 1976 to only 1.5% in 1983. The system deteriorated to the point where only 10% of primary school children had textbooks and only half of the primary school teachers had been trained to minimum standards. This deterioration needs to be reversed if Ghana is to have the strong human resource base (a productive labor force) necessary to foster sustained economic development. Basic literacy and numeracy are essential qualities of a productive labor force. In 1990, the adult literacy rate was estimated to have been 60%.

Activities. USAID's Primary Education Program (PREP) supports the decentralization of the Ministry of Education to the district level, improved qualifications of public school teachers and institutionalization of student achievement testing. The project also provides textbooks, improved access, teacher training and improved administration in the primary school system. A second phase of assistance will be designed during 1995 for implementation beginning in FY 1996.

Indicators. USAID tracks GOG funding for primary education, progress on student performance through achievement tests, teacher training, school supervision, policy reforms and improvements in the Ministry of Education's institutional capacity. The program seeks to maintain the Ministry of Education's budget and expenditures for primary education at the 1989 level (38%), to see that 90% of the primary schools have qualified teachers and basic teaching materials, and that 91% of the circuit supervisors have been hired and trained.

Feasibility and Cost-effectiveness. PREP has been successful in stimulating increased public spending for primary education. In studies throughout the developing world, investments in primary education have been shown to contribute significantly to long-term economic growth and improvements in the overall health of the nation. PREP places strong emphasis on equity considerations with respect to poverty and gender. PREP's mid-term evaluation identified the need to address management and information weaknesses, the qualifications of teachers and changes in curricula. These issues will be addressed in the development of a proposal for further assistance to primary education.

**Progress in 1993-1994.** In 1993, 41.7% of the Ministry of Education's expenditures were allocated to primary education. USAID recently conducted a comprehensive review of curricula, textbooks and instructional material, and concluded that substantial revisions are needed in each of these areas. The Ministry of Education established committees to review the performance of the primary education system and to develop a strategy for further reforms. USAID assistance was successful in increasing the rate of textbook production to 775,000 units during the last six months of FY 1994.

**Donor Coordination.** USAID assistance is closely coordinated with that of the World Bank and the British Overseas Development Administration, the other major donors in this sector.

**Constraints.** GOG development of a primary education strategy for the next five years has been slow. Management capacity of the Ministry of Education is weak and the classroom performance and supervision of teachers is poor. USAID has delayed design of new activities in this sector in order to support GOG strategy development efforts and to identify a more effective response to identified constraints.

## **STABILIZING WORLD POPULATION GROWTH (\$15,277,936).**

### **SO 2. Reduce Fertility (\$15,227,936).**

At the current annual growth rate of 3%, Ghana's population will double in 24 years from the current 17 million. This population growth puts pressure on social and economic infrastructure and inhibits growth in per capita income. Ghana's emergent family planning program suffered serious set-backs during the country's economic deterioration in the early 1980s. Much of Ghana's shrinking health budget has gone to curative care rather than primary health care and family planning interventions.

**Activities.** The current Family Planning and Health Program, which ends in March 1996, supports the Government of Ghana's efforts to increase the use of modern methods of family planning by increasing the capacity of the public and private sector to provide family planning and maternal and child health services, supplies and information. It also seeks to increase the effectiveness of HIV/AIDS prevention and control activities. A new Ghana Population and AIDS Program (GHANAPA), approved in September 1994, will build on the current program. GHANAPA addresses public policy constraints that limit the delivery of family planning services, and the diagnosis, prevention and control of HIV/AIDS and other sexually transmitted diseases in Ghana. The program will also continue efforts to increase the use of effective family planning methods, and increase awareness and practice of HIV/AIDS risk reduction behavior.

**Indicators.** The USAID program seeks, by the year 2000, to: a) reduce the total fertility rate from 5.5 live births per woman in 1993 to 5.0; b) increase the contraceptive prevalence rate for modern contraceptive use among women living with a male partner, from 10% to 20%; c) increase percentage of contraceptive prevalence attributable to longer lasting methods from 20% to 40%; d) increase the percentage of total demand satisfied for all contraceptive methods, from 26.4% to 50%; and e) increase public sector cost recovery for contraceptives, from 5% to 15%.

**Feasibility and Cost-effectiveness.** Considerable unmet demand for family planning services and contraceptives is demonstrated in survey findings which indicated that 72% of married women and 67% of married men wish to either postpone the birth of their next child for two years or want no more, while only 34% of married men and 20% of married women report using any family planning method -- including traditional methods. USAID programs work with existing public health centers, but an emphasis is placed on social marketing through the private sector and through cooperation with non-governmental organizations to reach the maximum population at the lowest cost. Emphasis is placed on longer-lasting methods to achieve greater cost-effectiveness. Given low incomes of the majority of the population, full cost recovery is not practical at this time. Success in stabilizing population growth will reduce pressures for public spending.



**Progress in 1993-1994.** As a result of the Family Planning Health Program, the GOG has adopted a National Population Policy, eliminated price controls on contraceptives and removed their classification as dangerous drugs. Contraceptives are more widely available, the contraceptive prevalence rate has doubled from 5% in 1988 to 10% in 1994, and couple-years-protection increased from 223,000 in 1991 to 317,000 in 1993. The total fertility rate has declined from 6.4 to 5.5 in the past five years; an outstanding achievement for Sub-Saharan Africa where fertility rates often exceed 6 children per woman.

**Donor Coordination.** USAID is the leading donor in family planning. Programs are coordinated with the United Nations Fund for Population Activities, UNICEF, the International Planned Parenthood Federation, other bilateral donors and non-governmental organizations.

**Constraints.** GHANAPA is addressing several constraints, among them: financing for family planning is low and unsustainable; increased resource allocation by the public sector and increased user fees and contraceptive prices are needed; improved management, improved infrastructure and additional training for service providers are required; and the needs of certain target groups, e.g. men and adolescents, are not being met.

#### **Cross-cutting Issues.**

#### **BUILDING DEMOCRACY (\$1,582,500).**

As a cross-cutting activity throughout the USAID portfolio, Democracy and Governance is of particular importance. Ghana has made substantial progress during the 1990s in its transition to democracy and is moving to consolidate the gains of past political reforms. In November 1996, the country will undergo a second round of presidential and parliamentary elections since the Constitution of the Fourth Republic was approved by national referendum in April 1992. However, the national voter registry used for the elections in 1992 is seriously out of date and disparaged by many in Ghana. USAID's \$10.15 million Supporting the Electoral Process (STEP) Project was signed in September 1994, to help Ghana consolidate the gains it has made in establishing democracy. STEP is being implemented by the International Foundation for Electoral Systems which will assist the GOG in creating a new voter registry, developing an intensive voter education program on registration, improving the management of voter registration, and providing subsistence grants for observers of the registration process. STEP also provides limited commodity support for election activities.

#### **HIV/AIDS PREVENTION (\$1,220,000).**

HIV prevalence in Ghana is estimated at between two and four percent. Although this is low by African standards, it is clear that the HIV/AIDS pre-epidemic phase is completed and that a sharp increase in HIV incidence should be expected in the next five to six years. The purpose of the HIV/AIDS component of the Ghana Population and AIDS (GHANAPA) Program is to increase the awareness and practice of risk reduction behaviors. GHANAPA will promote improved policies, safer sexual behavior, improved diagnosis and treatment of sexually-transmitted diseases and improved HIV/AIDS laboratory and surveillance systems. Expected achievements, to be measured through surveys, includes: a) an increase in the proportion of people citing at least two ways to prevent HIV infection, from 61% to 75%; and b) 50% of respondents reporting condom use during most recent act of sexual contact with a non-regular partner.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$8,611,000).**

P.L. 480, Title II assistance enhances food security of vulnerable population groups in Ghana. Food and local currency resulting from the sale of food provide assistance to at-risk mothers and children, rural farmers and victims of disasters. Assistance is also provided for rural community initiated projects, such as agro-forestry, social services and enterprise development.

**Other Donor Resource Flows.**

In FY 1993, the United States was the fifth largest donor to Ghana, providing 6.8% of all donor contributions. Major donors are the World Bank, Japan, the European Development Fund and Germany.

**GHANA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
USAID Strategic Objectives						
1. Increased Private Sector Non- Traditional Exports	17,979,678	--	1,284,300	--	--	19,263,978
2. Reduce Fertility						
Dev. Fund for Africa	--	9,682,936	--	--	--	9,682,936
Dev. Assistance Fund	--	5,545,000	--	--	--	5,545,000
3. Improved Quality of Primary Education	8,000,000	--	--	--	--	8,000,000
Cross-cutting Issues:						
HIV/AIDS Prevention	1,220,000	--	--	--	--	1,220,000
Election Support	--	--	--	1,582,500	--	1,582,500
P.L. 480, Title II	--	--	--	--	8,611,000	8,611,000
<b>Total</b>	<b>27,199,678</b>	<b>15,227,936</b>	<b>1,284,300</b>	<b>1,582,500</b>	<b>8,611,000</b>	<b>53,906,412</b>

USAID Mission Director: Barbara Sandoval

## GUINEA

**FY 1996 African Development Fund Request: . . . . . \$23,365,503**  
**FY 1996 Development Assistance Fund: . . . . . \$2,300,000**

Guinea, one of the world's poorest and most underdeveloped countries, suffers from one of the lowest education levels in West Africa. The USAID/Guinea program promotes U.S. interests in democratic governance, free-market development and a reduction in poverty. The USAID program has targeted its resources towards expanding the economy away from the traditional mining sector as a means of diversifying and achieving more sustainability and equity in its distribution of benefits. Also, to address rapid population growth and a weak human resource base, the USAID program focusses on family planning service delivery in both the private and public sectors and the strengthening of primary education. In a relatively brief period, USAID has recorded significant results through its agriculture infrastructure and private enterprise development activities.

### **The Development Challenge.**

In 1994, Guinea was ranked last out of 173 nations by the United Nations Development Program Human Development Report. This ranking reflects Guinea's poor social and economic situation, including an infant mortality rate of 150 deaths per 1,000, a population growth rate of 2.8%, and an illiteracy rate of about 75%. Such statistics reflect the 26 years of totalitarian rule of Sekou Toure, during which time economic growth was crushed and the transport, power and communication sectors were destroyed. In 1984, with the advent of the second republic, Guinea decided to change its course radically. The political system was reformed and the economy was liberalized. With the help of the World Bank, the International Monetary Fund (IMF) and other donors, these reforms have begun to take hold. The IMF reports that inflation has been reduced to 4% a year, the exchange rate has been stabilized, and fiscal discipline has been imposed. These measures have led to an estimated 4% annual growth rate from 1987 to 1993.

**Strategic Objectives (SOs).** USAID is pursuing four strategic objectives in Guinea.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$19,413,505 of which \$17,113,505 DFA and \$2,300,000 DAF).**

**SO 1. Growth and Efficiency in Agricultural Markets (\$10,512,325).**

While Guinea traditionally relied on its mineral exports as its major source of income, dependence on this sector has not led to sustainable, broad-based economic growth. An estimated 80% of Guineans are engaged in the agriculture sector where the country has a comparative advantage. Through reducing barriers to agricultural production, USAID can assist the greatest number of Guineans and have a direct effect on rural income. Increased wealth for all citizens has a synergistic effect on the other strategic objectives having to do with increasing demand for family planning services and improving primary education.

**Activities.** The USAID program is assisting the country to: improve intra-regional, inter-regional, and international access to markets for the productive coastal area of Guinea; increase private and public capital investment; and to improve natural resource management. USAID is providing technical assistance and training to develop viable, rural-based, small scale enterprises, to increase owner equity among assisted firms, and to increase profits among these firms. Through the construction of rural roads USAID is assisting small farmers access markets which will increase the year-round volume of produce and goods traded throughout the country; and lower the cost of commercial transport. Additionally, USAID is providing technical assistance to improve the management of natural resources in three target watersheds in the Fouta Djallon Highlands of Guinea for profitable and sustainable agricultural production. Assistance through this SO has resulted in a very high impact and benefits

accruing to the population. There is a reported 30%-50% decrease in transportation costs, increased quantities of produce transported to markets, greater flow of goods and services into the rural communities and increased vehicular traffic.

**Indicators.** Two indicators for achieving this SO are a 12.5% increase in agricultural production for selected commodities (e.g. rice, maize, coffee, pineapples, peanuts) between 1993 and 1996; and a 40% decrease in transportation costs per kilometer between 1993 and 1996.

**Feasibility and Cost-effectiveness.** Reform in the agriculture sector is recognized by donors and the Government of Guinea (GOG) alike as the key to promoting sustainable growth, and is evidenced by price and market liberalization, controlling inflation, and extensive privatization. USAID programs combine project assistance and policy dialogue that are leading to an improved enabling environment for agricultural marketing, including a better legal and financial policy framework, an improved human resource base and better access to information and credit. While the programs are too new to calculate returns on investment, we anticipate positive returns in the 1993-1996 time period, such as a six-fold expansion in job creation for small and medium enterprises.

**Progress in 1993-1994.** Baseline data collection for two key projects under this SO only began in January 1994 and analysis of data is not expected until early 1995. However, trends are very positive: nearly 600 kilometers of road and 14 bridges have been completed under two projects and over 1,000 additional kilometers of road are under contract. There is a reported 30-50% decrease in transport costs, increased quantities of produce transported to markets and a greater flow of goods and services in areas where roads have been completed. Over 10,815 loans totalling \$2.4 million have been made to micro-enterprises in rural areas with 100% repayment rates. An Agricultural Marketing Foundation has been formed and is engaging the GOG in policy dialogue; an Agricultural Marketing Loan Guaranty Fund and credit facility were recently established; three export contracts have resulted from regional trade fairs organized by USAID; and exports of pineapples and mangoes are reported to be on the increase.

**Donor Coordination.** USAID's efforts under this SO directly address economic growth issues and are highly complementary with other major donor projects. Several USAID projects are either jointly funded/co-financed or share costs with other donor projects to avoid duplication of efforts. The very nature of this SO requires close coordination and dialogue with donors (the World Bank, the Food and Agriculture Organization of the United Nations, and the European Economic Community).

**Constraints.** Continued high costs of transport, expensive packing materials, lack of pre-harvest care for some export products and lack of credit options continue to represent constraints to growth in the agriculture sector. In addition, further reform is needed in interest and exchange rate policies, and rules for the establishment of private businesses and land reform to facilitate trade and private investment. USAID as well as other donors are addressing these constraints.

**SO 2: Improved Quality and Increased Enrollment in Primary Education, with an Emphasis on Rural/Female Participation (\$5,300,000 of which \$3,000,000 DFA and \$2,300,000 DAF).**

A weak human resource base is one of Guinea's major constraints to development. A 75% illiterate population means poor management in the public and private sectors, limited ability to take advantage of agricultural export opportunities, reduced capacity to understand and use family health information and services, and slower adoption of democratic principles and policies. Improved literacy, therefore, is linked to all other elements of USAID/Guinea's program. The emphasis on female participation will yield the highest returns of all, given the important female role in agriculture and microenterprises.

Expanded family education also contributes directly to lowered fertility rates and improved health status.

**Activities.** Through the provision of sector budget support, technical assistance and training, USAID is assisting the GOG to expand the level of staff and organizational performance within the Ministry of Education to promote a continuously improving quality of schooling to a continuously increasing percentage of school children. Specifically, activities in this SO are aimed at changing social perceptions and traditions that prevent girls from attending school; making schools accessible to girls from rural areas; encouraging the GOG to increase its budgetary allocation to primary education; and fostering improvements in the overall administrative management of the entire educational system through the provision of technical assistance and training.

**Indicators.** The share of the GOG's budget to primary education will be increased to 25%; and the gross enrollment rate for primary schools will be increased by 34%.

**Feasibility and Cost-effectiveness.** This USAID program, which has coupled policy reform dialogue with project assistance, has yielded increased allocations of the government resources for primary education, a redeployment of teachers to the primary school level and increased primary school enrollment. Our investment, which will equal \$17.0 million in the FY 1994-1996 period, is already resulting in an increase in the gross enrollment rate, (GER). It is estimated some 70,000 new students will be enrolled in FY 1995 and 125,000 in FY 1996.

**Progress in 1993-1994.** The GER grew from 27.5% in 1989/90 to over 40% in 1994, surpassing the original USAID target. The share of the Government's budget that went to the education sector also grew significantly; the primary school education budget increased to 36% of the Ministry of Education's total budget, again surpassing original targets. In addition, the Government redeployed over 2,000 teachers out of overstuffed secondary schools to primary schools.

**Donor Coordination.** The Education Sector Reform Project is part of a multi-donor effort to assist Guinea with the reform of its primary education system. The principal donors have taken responsibility for different interventions in the reform. The World Bank, through a sector adjustment credit program, provides financial assistance for school construction and technical assistance aimed at policy reform. The French Fonds d'Aide et de la Cooperation, provides technical assistance in the areas of teacher training, educational planning, monitoring and evaluation. Donor coordination is achieved through a series of joint donor reviews with the GOG and periodic meetings to collaborate on technical and policy issues.

**Constraints.** Continued weak planning and management capacity, delays in the transfer of funds from the central budget to the Ministry of Education and its lack of adequate internal controls, as well as poor performance by primary school graduates, high repeater and drop out rates and cultural biases against girls' education, all constitute constraints in this sector. The Government's need to meet certain IMF targets on expenditures may further limit Government options for recurrent cost support of an expansion of primary education facilities.

#### **STABILIZING POPULATION GROWTH (\$3,800,000).**

**SO 3: Improve Family Health Services and Increase Ability of Families to Limit Household Size (\$5,301,180 of which \$3,800,000 is for Stabilizing Population Growth and \$1,801,180 is for Encouraging Economic Growth).**

Guinea's impressive economic growth needs to be protected against demographic pressures. High fertility and high infant mortality rates constitute a vicious circle that needs to be broken. While the USAID/Guinea program originally focused purely on family planning, a family health component is proposed for FY 1995 in recognition that improved maternal/child health strengthens the demand for family planning services.

**Activities.** Through the use of technical assistance and training, USAID is assisting Guinea to increase the availability, accessibility, affordability, acceptability, diversity, quality and use of family planning and Sexually Transmitted Diseases (STD)/AIDS prevention products and services. Also, policy reforms enacted under USAID's assistance program are directly related to the decline in Guinea's population growth rate, and the increased availability and distribution of contraceptives and family planning services through the STD and HIV/AIDS intervention program.

**Indicators.** (1) Improved policy and legal climate for family planning and the contraceptive prevalence rate will increase to 5%; (2) Family planning and STD/AIDS-prevention services fully integrated into 64 GOG Primary Health Care (PHC) centers and Maternities; and (3) Social marketing system established to provide contraceptive products and services to customers through the private sector.

**Feasibility and Cost-effectiveness.** The GOG has recently reversed its pronatalist policy and embraced a contraceptive prevalence goal of 25% and a population growth rate goal of 2% by the year 2010. The 1992 Demographic Health Survey data showed a negligible contraceptive use (about 1%) prior to the start of the USAID program. However, only two years later, family planning and AIDS prevention messages are being seen and heard frequently on radio and TV and contraceptive use is on the rise in project areas. USAID's investment of \$8.3 million in family planning and health in the FY 1994-1996 period is small in relation to the benefits of improved health and reduced population growth, both of which make economic growth more sustainable. By the end of 1996, 50% of public primary health care centers are projected to offer family planning services.

**Progress in 1993-1994.** Mass media messages on family planning and HIV/AIDS prevention have resulted in enormous increases in condom sales. These exceeded 3.5 million in 1993/94. Couple years of protection (CYP) achieved were more than double the projected target levels in FY 1994, and more than 50,000 CYP have been achieved since the beginning of the project. The number of public health care centers offering family planning services grew by 64% during this period, dramatically increasing nationwide access and coverage to approximately 1,120,000 people.

**Donor Coordination.** The two major donors in family planning are USAID and the United Nations Fund for Population Activity (UNFPA). Both focus on integrating family planning in government health clinics, UNFPA working in Middle and Lower Guinea and USAID working in Upper Guinea and the Forest Region through its cooperative agreement with Population Services International. USAID, however, is the only donor working on a large scale in social marketing of contraceptives or in information, education and communication activities.

**Constraints.** Reproductive behavior takes time to change and is related to high infant and child mortality rates. An expansion in the delivery of family health services and access to them is limited by the existing health system and infrastructure.

#### **Cross-cutting Issues.**

##### **Human Resources Development - Economic Growth (\$1,800,000).**

To support broad-based economic growth, USAID is facilitating and supporting national and regional training programs that will provide qualified technical, scientific and managerial personnel and policy planners to strengthen African development institutions, enhance the growth of the private sector and increase the participation of women in development.

##### **Increase Participation in Democratic Processes and Fostering Good Governance - Democracy Building (\$2,186,620).**

This is a new activity, proposed for the FY 1995-1996 time period. Its addition reflects the electoral assistance that the Mission has been involved in since 1993 and the fact that all of the Mission's other

SOs already have elements relating to promoting good governance. With a separate democracy/governance SO, the Mission would institute a new project designed to promote improved governance at the local level. This would complement and facilitate implementation of projects under other SOs which rely heavily on local institutions for support. The expansion of democracy/governance activities reflects the realization that solid economic growth can best be achieved in a society with active civic organizations, a fair and transparent legal and regulatory system, decentralization and good governance.

**Improve Water and Soil Conservation - Protecting the Environment (\$265,378).**

Activity in improving water and soil conservation techniques in three watersheds in the Fouta Dajallon region, implemented through the Natural Resources Management project, is a critical investment in environmental protection -- the management of a fragile agro-ecological system for sustainable production and planning and for the development of a national environmental action plan. The outcome of this effort will be reduced degradation and improved quality of life of those living throughout the river basins of West Africa, specifically through soil conservation, water control, and planting of trees and windbreaks for effective management of natural resources.

**Other Donor Resource Flows.**

In FY 1993, the United States was the sixth largest donor to Guinea, providing 6.2% of all donor contributions. Other major donors include France, Japan, the World Bank, African Development Bank, the European Community, and the United Nations Agencies.

**GUINEA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Growth in Agricultural Markets	10,512,325	--	--	--	10,512,325
2. Improved Primary Ed					
Dev. Fund for Africa	3,000,000	--	--	--	3,000,000
Dev. Assistance Fund	2,300,000	--	--	--	2,300,000
3. Improved Family Planning Services	1,801,180	3,800,000	--	--	3,800,000
Cross-cutting Issues:					
Human Resource Dev.	1,800,000	--	--	--	1,800,000
Democracy/Governance	--	--	--	2,188,620	2,188,620
Protecting the Environment	--	--	265,378	--	265,378
<b>Total</b>	<b>19,413,505</b>	<b>3,800,000</b>	<b>265,378</b>	<b>2,188,620</b>	<b>25,685,503</b>

USAID Mission Director: Wilbur Thomas

## GUINEA-BISSAU

FY 1996 Development Fund for Africa Request . . . . . \$5,449,996  
FY 1996 P.L. 480 Title II Request: . . . . . \$907,000

Guinea-Bissau is a small, ethnically and religiously diverse, poor West African nation that has attracted wide attention from donors and other developing countries by doing numerous things right: a peaceful transition to multi-party democracy; a successful stabilization program; strong efforts in structural adjustment; significant policy, legal, regulatory and judicial reform; rapid private sector expansion; and, most important, continuing real economic growth. Guinea-Bissau continues to provide valuable "lessons learned" on the relationship of peaceful political transformation and good governance to private sector development and sustainable economic growth. These lessons are directly applicable to other emerging and troubled democracies in Africa, especially Mozambique and Angola, which share the same Portuguese colonial ties and social, political, economic and legal traditions as Guinea Bissau. It is in the interest of the United States to continue supporting Guinea-Bissau to consolidate democratic and economic gains made to date and to apply the lessons of Guinea-Bissau's peaceful and fundamental transformation to other countries in an increasingly unstable region.

### The Development Challenge

Despite its impressive achievements of the past few years, Guinea-Bissau remains one of the world's least developed nations. Per capita income is only about \$220, the debt burden is approximately 300% of gross domestic product (GDP), and the country lacks much basic infrastructure. Many of these developmental constraints stem from the Government of Guinea-Bissau's (GOGB) adoption, after independence from Portugal, of a socialist model of economic development. Private ownership of the means of production was banned and state-owned agencies were created to industrialize the country. By the early 1980s the economy had failed dismally and the country suffered severe shortages of even basic goods and services. In 1986 the GOGB began to reorient its economy toward market-oriented, agriculturally-based, private sector-led development. By the 1990s, the private sector began asserting itself as the engine of growth and development.

Significant factors that continue to inhibit the sustainability of private sector-led growth are the policies and policy-making environment, the legal, regulatory and judicial framework, and limited private sector business support services. Reforms in these areas, though critical, will not, in themselves, be sufficient to ensure stimulation and continued growth of private sector activities. Guinea-Bissau's transition can only be accomplished if there is also significantly increased participation of the private sector and by entrepreneurs who respond to the new opportunities presented by an improved business environment.

### Strategic Objective (SO).

The USAID program supports one strategic objective which directly mirrors the GOGB's economic and political reform agenda.

### ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$1,689,950).

SO 1. To Increase Sustainable Private Sector Trade and Investment in Six Critical Growth Sub-Sectors through Improved Governance (\$5,449,996 of which \$1,689,950 is for Encouraging Economic Growth, \$1,572,090 is for Building Democracy, \$2,087,956 is for Protecting the Environment, and \$100,000 is for Stabilizing Population growth).

The USAID program recognizes that private sector growth must be promoted in areas of economic significance and real economic potential. Thus, the critical growth sub-sectors identified in the strategic objective are defined as the production, processing and marketing (domestic and/or export)



of cashews, fruits, vegetables, rice, forest, and fish products. Together these sub-sectors account for 60-70% of GDP, employ over 80% of the population, account for almost 100% of exports, and provide almost 70% of GOGB domestic revenues.

**Activities.** The vast majority of USAID-financed activities are carried out under the Trade and Investment Promotion Support (TIPS) project, and supported by complementary USAID central projects. To achieve USAID's strategic objective the TIPS program consists of technical assistance and training (mostly in-country), to facilitate and implement: 1) Policy Formulation; 2) Legal and Regulatory Reform; 3) Judicial Reform; and 4) Assistance to the Private Sector to ensure that private sector interests are known and respected in policy, legal, regulatory and judicial reforms, and to ensure that the private sector responds to new economic opportunities in the six critical growth sub-sectors.

**Related Activities.** The TIPS project's emphasis on improved governance leading directly to economic growth is at the heart of the USAID program. USAID and the GOGB, in full collaboration with the private sector, are promoting improved, participatory policy making, participatory debate of legislation and regulations, an independent and better-trained judiciary, and the establishment and empowerment of private sector associations. Additionally, the TIPS policy component activities focus on protecting the environment. TIPS is working with host country and donor counterparts to develop a tropical forest resources management policy and a fisheries resources management policy to ensure appropriate and sustainable use of these natural resources. The TIPS project will also work closely with the World Bank's resources management project in Guinea-Bissau.

**Indicators.** Indicators for the 1992-1998 period include: A. Domestic Trade: 1) the number of formal sector commercial firms registered increased by 25% over 1992 levels; 2) the number of semi-formal sector applications for stalls at formal markets increased by 25% over 1992; and 3) the number of rural households reporting money income, part of production sold, and part of consumption purchased increased by 25% over 1992; B. External Trade: 1) export earnings from cashews, wood and wood products, fish and fish products, fruits and vegetables increased by 25% over 1992; and 2) productive input component of imports increased by 25% over 1992; and C. Investment: 1) number (value) of foreign and domestic applications approved and implemented in the critical growth sub-sectors under the new investment code increased by 100% over 1992; and 2) private investment increased to around 5% of GDP.

Economic analysis done for the TIPS project showed that even under very modest impact assumptions, the overall rate of return on the USAID investment should exceed 10% per year. To achieve this rate, GDP need only grow at an increased average marginal annual rate of about 0.9% over the next 20 years (total GDP for Guinea-Bissau is only about \$220 million now). For example, TIPS analysis showed that domestic processing of cashews (now exported in the shell) could alone increase the value of the domestic product by about \$3.2 million or 1.5%. Mango exports, when production is fully converted to European market varieties, could produce up to an additional \$1.5 million per year.

**Feasibility and Cost-effectiveness.** When the USAID strategy for Guinea-Bissau was approved in 1992, the Mission's approach was considered ambitious, experimental and high risk because it sought to change fundamental elements of Guinea-Bissau society: government structures (executive, legislative, and judiciary) as well as key policies, laws and regulations. The program also sought to create the elements of civil society: private interest groups, open debate of policy, laws, etc. However, the high risk label is no longer appropriate. Guinea-Bissau, with USAID assistance, has already made excellent progress in all these areas. USAID's program does not finance infrastructure or subsidize operating costs of the public and private entities with which it works (Guineans pay these costs) thus ensuring program sustainability.

**Progress in 1993-1994.** Because "official" statistics on levels of economic activity do not adequately reflect all activity (especially in the informal sector) USAID has developed proxies for some indicators of private economic activity. As can be seen from the following, private sector economic activity --

virtually non-existent a decade ago -- is booming. Real economic growth, led entirely by the private sector, remained stable at about 3% per year. This translated into concrete gains for the people of Guinea-Bissau in the form of new jobs and increased opportunities .

**A. Domestic Trade:** The number of registered firms in Guinea-Bissau increased from 2,119 in 1992 to 2,583 in 1994, a 22% increase in two years. The total number of small traders in Guinea-Bissau increased from 14,500 in 1992 to 18,500 in 1994, a 27% increase. **B. External Trade:** 1994 exports, totaled \$26.5 million, an increase of 29% over 1991. Cashews (in the shell) accounted for 84% of the value of all exports. **C. Investment:** Since Guinea-Bissau still has no national income accounts, firm estimates of private sector investment are not available, however it is clearly increasing. The number of foreign and domestic applications approved under the 1991 investment code increased from 13 in 1992 to 22 in 1994. Hectares planted in cashews, a major investment, increased by 1,700 or 6.3% in 1994 alone. Housing construction, privately financed, has boomed in the city of Bissau over the past 2 years. The population of Bissau is now approximately 200,000.

Significant progress in USAID's four areas of operational activity is documented below. These judicial, legal, and regulatory reforms, coupled with a strengthened private sector, lay the foundation for improving the lives of the nearly 80% of the population employed in the TIPS critical growth sub-sectors (small farmers, large commercial farmers, producer and marketing organizations, agribusiness entrepreneurs, transporters, and others).

**(A) Judicial Reform:** The Constitution was amended to establish an independent judiciary. The GOGB established a new separate line item in the government budget to finance the judiciary. The first of 38 planned rural small claims courts were inaugurated, which will serve as links between modern and traditional systems of justice.

**(B) Assistance to the Private Sector:** The environment for private sector economic activity was greatly enhanced. USAID-financed activities fostered the creation of eight key national-level private sector organizations, including the Chamber of Commerce, the National Agricultural Producers Association, the Association of Women Entrepreneurs, and the Association of Informal Medium- and Small-Scale Traders.

**(C) Legal and Regulatory Reform:** The GOGB Constitution was revised to permit multiparty democracy and to formalize the separation of powers between the executive, legislative and judicial branches. The Ministry of Commerce is now working closely with major private sector interest groups and the informal sector to remove and /or modify commercial laws, regulations and procedures which inhibit private sector activity. USAID-financed research has produced crucial information for use by the GOGB, donors, and the private sector. Major research included such critical topics as cross-border trade with Senegal and Guinea, the role of the Guinea-Bissau informal sector in the economy, legal/regulatory constraints to private business activity and investment, potential for shrimp and oyster production and for fruit export to Europe, and priorities for judicial system reform.

**(D) Policy Formulation:** The most significant indicator of the fact that the USAID program has greatly influenced GOGB policy is the GOGB's "Medium-Term Economic and Financial Policy Framework Paper (1994-1997)" presented at the recent donor-sponsored Round Table Conference in Geneva. This conference provided \$375 million in donor pledges. The policy framework paper extensively borrows from the USAID program strategy, especially in its reliance on private-sector-led growth, legal, regulatory and judicial reform, and targeting of USAID's six critical growth sectors.

**Donor Coordination.** There is a large number of multilateral and bilateral donors operating in Guinea-Bissau, and donor coordination is excellent. USAID has worked particularly closely with the World Bank on stabilization and structural adjustment and is recognized by all other donors as the leader in private sector promotion as well as policy, legal and judicial reform.

**Constraints.** Guinea-Bissau is a poor country requiring development in almost all areas. The primary development constraints, recognized but outside the scope of the USAID strategy for Guinea-Bissau, are in the areas of: (1) macroeconomic stabilization, (2) physical infrastructure (roads, ports, airports, etc), and (3) social sectors (education and health). To one degree or another, all are constraints to the realization of USAID objectives. Other donors are working to address these development impediments. For example, the World Bank and the International Monetary Fund are working on structural adjustment and stabilization activities; United Nations agencies, the Swedes and the Portuguese are providing assistance in basic health and education services; and the European Economic Community and Taiwan are focusing on capital improvements to physical infrastructures and roads.

**PROVIDING HUMANITARIAN ASSISTANCE (\$907,000).**

**P.L. 480 Title II (\$907,000).**

The U.S. private voluntary organization (PVO) Africare is carrying out a small and medium enterprise development project in the southern region of Tombali. This Title II-financed program is wholly complementary to the overall USAID strategy, especially in providing direct support to the private sector, including individual entrepreneurs, microenterprises and small-scale producer associations working in USAID's six critical growth sub-sectors. The Africare program, carried out in over 20 demonstration villages, provides training in technical and managerial skills to support the private sector. Africare also has established agricultural and agribusiness training centers in two rural locations to better organize and train small-scale producers and processors in production techniques, marketing, and business development. Graduates of these centers serve as resource individuals and groups for other rural entrepreneurs. The program includes an experimental, small-scale credit program to address a key constraint to private sector growth in rural areas.

**Other Donor Resource Flows.**

In FY 1993, the United States was the sixth largest donor to Guinea-Bissau, providing 4.1% of all donor contributions. Other major donors included Portugal, the International Development Agency, Sweden, the United Nations Development Program and Japan.

**GUINEA BISSAU  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
USAID Strategic Objectives						
1. Increased private sector trade and investment in six critical growth subsectors through improved governance.	1,889,950	100,000	2,087,956	1,572,090	--	5,449,996
Cross-cutting issue:						
PL 480, Title II	--	--	--	--	907,000	907,000
<b>Total</b>	<b>1,889,950</b>	<b>100,000</b>	<b>2,087,956</b>	<b>1,572,090</b>	<b>907,000</b>	<b>6,356,996</b>

USAID Representative: Michael F. Lukomski

## KENYA

FY 1996 Development Fund for Africa Request . . . . .	\$23,845,227
FY 1996 Development Assistance Fund Request . . . . .	\$7,775,000
FY 1996 P.L. 480 Title II Request . . . . .	\$6,951,000

Kenya was one of sub-Saharan Africa's best economic performers until the late 1980s. It has both human and natural resource potential for sustained development. Kenya is currently in a difficult transitional stage, making halting progress toward improving democratic governance following the multi-party election in December 1992. Nevertheless, Kenya continues to maintain a stable, pro-Western government and a free-market economy with a vibrant private sector. The government continues to be responsive to U.S. interests, collaborating with the United States on humanitarian and refugee operations in Ethiopia, Rwanda, Somalia, Sudan, and other neighboring countries located in the Greater Horn of Africa. In this regard, Kenya is the logistical hub for the region and plays a vital function in U.S. efforts to restore regional stability and prevent further crises. Through the Greater Horn of Africa Initiative, Kenya can maintain its significant role in regional trade, investment, infrastructure development and general economic cooperation for the region. U.S. assistance to Kenya also supports broader U.S. interests in promoting a pluralistic society and democratic governance, in maintaining a stable and open market economy which benefits regional economic growth, and in responsive humanitarian relief.

### The Development Challenge.

Though significant progress was made over the past year with economic liberalization and structural reforms, the continuing challenge is to maintain the gains to date and encourage further progress on democratic governance. The challenge for the United States is to continue to engage the Government of Kenya (GOK) in constructive policy dialogue and to reinforce donor coordination in pressuring for accelerated reform. The United States intends to continue working toward improvements in economic policy and the political environment while addressing the longer-term development challenges of reducing population growth, while improving health services, and promoting sustainable, broad-based economic growth and employment opportunity.

During the past year, progress was made in stabilizing and liberalizing the economy. Inflation was brought under control and continues to decline. The budget deficit has been reduced and interest rates have come down. Other reforms include decontrol of all prices, abolition of trade and foreign-exchange controls, and some progress on parastatal and civil service reforms. Results on political reform and progress on accountability and governance were mixed, and remain a major challenge for the USAID program. Since November 1991, USAID has decreased economic assistance to Kenya pending progress on a variety of economic and political reforms.

### Strategic Objectives (SOs).

USAID supports three strategic objectives in Kenya. The program also has cross-cutting themes which include building democracy, training, enhancing household food security, and strengthening capacity of private voluntary and non-governmental organizations (PVOs/NGOs).

### STABILIZING POPULATION GROWTH (\$14,883,035 of which \$6,608,035 DFA and \$7,775,000 DAF).

#### SO 1. Reduce Fertility and Incidence of HIV/AIDS (\$14,383,035).

Kenya's population grew from 5.4 million in 1948 to 25.7 million in 1994. If this annual population growth rate of 3.0% were allowed to continue, by the year 2020 there would be 11 million more people to feed, millions more job seekers than jobs, 5,000 more Kenyans per hectare of arable land; a decline in health expenditures per capita; and 5.7 million more students to educate.

HIV prevalence among Kenyan adults increased from 3.5% in 1990 to 5.7% in 1993. By the end of 1995, an estimated 1.2 million Kenyans, or nearly 5% of the population, will be infected with HIV. Without an aggressive prevention program, HIV prevalence could increase to 9% by the year 2000, young adult deaths could increase from 90,000 in 1993 to 280,000 annually and the annual number of children dying from AIDS could be as high as 50,000 by 2005 (versus 10,000 due to measles and malaria). The cost of caring for AIDS patients alone could consume most of Kenya's health budget, and, in economic terms, the costs of AIDS could reach as high as 15% of Kenya's gross domestic product.

Population growth and AIDS, if unchecked, will continue to retard economic growth and could contribute to political instability in Kenya.

**Activities.** USAID has developed activities which will: (a) expedite replication of Kenya's successes in family planning (FP) and health-care financing; (b) seek to achieve measurable success in AIDS prevention; (c) assist Kenyan NGOs become self-sustaining and accelerate the privatization of health services and health insurance; (d) support implementation of progressive new Kenyan Government health policies to improve the efficiency, impact, and sustainability of FP and health services.

**Indicators.** The impact of USAID-supported activities will be measured by: (a) increases in the modern method contraceptive prevalence rate among all women of reproductive age (from 21% in 1993 to 30% in 1998); (b) decreases in fertility; (c) increases in use of the condom from 12% of all men in 1993 to 25% in 2000; and (d) decreases in the incidence or prevalence of STDs.

**Feasibility and Cost-effectiveness.** The Kenyan family planning program is succeeding. Surveys and evaluations in Kenya indicate that improved access to high-quality family-planning information and services has increased contraceptive use, which has been the main determinant for Kenya's rapidly falling fertility rate and overall population growth rate. Further significant declines in fertility are feasible by "doing more of the same" and meeting documented demand for family planning.

By contrast, the Kenyan HIV/AIDS control program is still evolving, but impact is expected in the future. Relatively rapid change in sexual behavior on a national scale is possible. USAID is using the extensive FP/Maternal Child Health (FP/MCH) service delivery infrastructure to broaden access to the information and services (condoms, counseling, testing, STD treatment) people require to avoid HIV infection.

**Progress in 1993-1994.** The modern method contraceptive prevalence rate among all women of reproductive age increased from 9.0% in 1984, to 21.0% in 1990-1993, and is projected to reach 28% in 1995. The total fertility rate decreased from 8.1 in 1977-1978 (one of the highest in the world), to 5.35 in 1990-1993 (one of the lowest in sub-Saharan Africa), and should fall below five percent in 1995. The population growth rate (PGR) decreased from 4.1% in 1980-1985 to a preliminary projection of 2.68% in 1995. Had the PGR which prevailed in the early 1980's persisted, Kenya's projected population could have been 120 million versus 49 million in 2025.

USAID directly contributed to these hopeful demographic trends -- and the myriad health and development benefits which ensue -- by being the largest and most dependable source of financial and technical assistance to the national family planning program, accounting for 60% of FP program costs in 1993.

No slowing in the rate at which HIV is spreading has been documented nationally. However, due to program efforts to date, many of the ingredients for impact are in place: basic AIDS control program components are functioning; government commitment is growing; 90% of Kenyan adults possess basic AIDS knowledge; 66% of men and 50% of women believe they are at personal risk; monthly sales of the USAID private-sector social-marketing condoms rose from 40,000 in 1990 to 500,000 in 1994 and distribution of USAID condoms in the public sector rose from 9 million in 1989 to 45 million in

1993; 12% of men currently use condoms in contrast to 1989 when condom use was virtually nil; and progress has been made integrating HIV/AIDS with FP/MCH services. Recent surveys suggest that behavioral changes are under way in Kenya which bode well for controlling AIDS: the practice of polygamy is decreasing, the median age at marriage is rising, and age at first intercourse for girls has risen slightly.

USAID is the lead donor supporting Kenya's efforts to increase local funding for health care and reduce dependence on foreign aid. A national cost-sharing program is now fully functioning throughout the public sector, generating about \$60,000 monthly for primary health care alone. Five countries in the region are studying Kenya's cost-sharing experience in preparation for launching similar initiatives.

**Donor Coordination.** Due to the leadership of USAID, a new action-oriented, consolidated population and health donor coordination group was launched in 1994. USAID is, for the first time, participating on World Bank (WB) missions in the public health sector. USAID is collaborating with the Japanese Government under the Common Agenda/Global Issues Initiative which has jointly planned a Small-Scale Grants Assistance program for Kenyan NGOs and has completed a first-ever joint assessment of the public health sector.

**Constraints.** The following constraints may impede achievement of this strategic objective: declining public health sector resources per capita, particularly for preventive health care; insufficient public support and understanding of the needs of youth for protection against unwanted pregnancy and STDs; and the lack of a viable female-controlled HIV/STD prevention method.

#### **ENCOURAGING ECONOMIC GROWTH (\$11,791,514).**

**SO 2. Increase Agricultural Productivity and Farm Incomes (\$7,835,002 of which \$4,600,000 is for Economic Growth and \$3,235,002 is for Protecting the Environment).**

Agriculture contributes 28% of gross domestic product, provides 60% of export revenues and employs over three-quarters of the work force. It is anticipated that the sector will absorb about 40% of the four million additional workers expected to enter the labor force by the year 2000.

**Activities.** USAID's strategy focuses support on technology development and transfer, fertilizer and grain-marketing liberalization, policy research, and natural-resource management. Geographic focus is on high- and medium-potential agricultural areas encompassing 20% of land area and 80% of the rural population.

Funds to protect the environment are assisting the Kenya Wildlife Service (KWS) in implementing a community conservation approach to wildlife management. KWS also provides assistance to NGOs in wildlife management, training and community development activities.

**Related Activities.** While land productivity has increased, labor productivity has not, which is due to rapid population growth and slow expansion of non-farm employment opportunities. Fortunately, technology-driven per-hectare yield increases have militated against an almost three percent per annum labor-productivity decline. These relationships illustrate key cross-sectoral links to the employment and population strategic objectives of USAID.

**Indicators.** The impact of USAID-supported activities is measured by annual growth rates of: 1) value of agricultural production per-hectare (target growth rate 3.7%); 2) value of agricultural production per-worker (target growth rate 1.1%); 3) maize yields MT/hectare (target growth rate 4%); and 4) agricultural-sector value added (annual target growth rate 4%).

**Feasibility and Cost-effectiveness.** Freer fertilizer and grain markets accelerate the adoption of hybrid and improved grain varieties by farmers. This, in turn, leads to increased land and labor productivity.

Land saved by increased maize productivity is then available for higher-value crops. Higher yields lead to improved food security and a larger marketable surplus. With efficient markets, this grain is able to reach deficient regions and households. Increased labor productivity stimulates not only improvement of farm technologies, but also increased consumption of goods and services from the larger economy, higher savings, and off-farm investment. The aggregate effect is stimulation of economic growth and development.

Progress in 1993-1994. Policy reforms on macroeconomic, trade and sectoral levels have improved agricultural-market performance, creating the potential for growth. The major reform during the past year was liberalization of maize marketing throughout the country, (adopted into law in December 1993). This policy change alone will do more to raise farm incomes and improve the incentive structure for farmers than any other investment. Complementary liberalization of the grain markets took place in early 1994, permitting the country's private sector to import commercial foods, thus ensuring that the country was well supplied in all markets. For the first time since 1963, there were no food queues, no panic buying or hoarding; government and relief donors were able to concentrate resources on those sections of the population who could not afford food. Macroeconomic liberalization is doing fairly well and, in tandem with agricultural sector-specific policy reform, has led to significant efficiency gains in commodity-market performance. Liberalization of the trade regime, together with unlimited access to foreign exchange, led to all-time high commercial nitrogen fertilizer imports.

Donor Coordination. Coordination of policies by donors has been instrumental in liberalization of the cereals sector with USAID leadership through its Kenya Marketing Development project. USAID is also assisting in improvement of agricultural road infrastructure along with Denmark, Sweden, and Finland. Germany provides assistance for a network of wholesale market places and the European Union (EU), Japan, United Kingdom, Germany and the WB are funding rehabilitation of Kenya's international and trunk road network.

In parks/wildlife management, major donors including the WB, the United States, Japan, the EU, the United Kingdom (UK), Germany and the Netherlands under the auspices of the WB Protective Areas and Wildlife Services Program collaborate on strengthening the management of Kenya's national park and reserve system by promoting environmentally sound tourism practices in the wildlife sector. Coordination of policies among donors has improved Kenya Wildlife Service management.

Eleven donors, including the United States, the WB, the EU and UK support agricultural research; the WB and Japan support agricultural education and extension, and the Nordic countries, the EU, Germany, the Netherlands, the International Fund for Agricultural Development, and the United Nations Development Program finance development of arid and semi-arid lands. Agro-forestry extension projects are being implemented by Denmark, the Netherlands and Sweden.

Constraints. Declining agricultural-sector growth and productivity have resulted from poor rainfall since 1990 in many key agricultural regions of Kenya. Reduced production has led to declines in per-capita agricultural production and food availability. The uncertain policy and overall economic environments also inhibit growth and productivity. Where political will has flagged, there have been instances of policy reversals and backtracking on conditionality.

### **SO 3. Increase Private Enterprise Employment (\$6,716,514).**

Nearly 500,000 people enter the labor force every year in Kenya. Only a portion of these new entrants find jobs, leaving Kenya with a burgeoning unemployment rate, estimated at 23% in the urban areas. Two categories of private enterprises--non-traditional exporters and medium, small and micro-enterprises--are supported by USAID as high-potential employers for most of the new job seekers.

Activities. Non-traditional exports (everything except tea, coffee, and petroleum) are an area of focus because of this sector's capacity to absorb large numbers of individuals into productive employment.

USAID's Kenya Export Development Support program assists Kenyan firms and related support organizations to expand non-traditional exports. USAID has assisted more than 30 firms in areas such as overseas marketing and product-quality improvement. USAID also supports trade associations that work with the GOK to improve export incentives for industries, and promote exports through trade shows. The labor-intensive, small and microenterprise (SME) sector creates more than half of Kenya's new jobs. Hence, in FY 1995, USAID initiated the Private Enterprise Development II project which: a) targets a few major subsectors (such as agro-processing) that have potential to create many microenterprise jobs, b) strengthens Kenyan organizations which provide support services to SMEs (much of which is microenterprise lending and business association development), and c) seeks to improve markets for this sector by reducing constraining regulations.

**Related Activities.** The current Kenyan labor force numbers 11 million, and is expected to reach 14.6 million by the year 2000. There are far too few jobs being created to employ these new entrants. Curbing Kenya's high population-growth rate will narrow this discrepancy. Since nearly 40% of all SME employment is in the agro-processing subsector, increasing agriculture productivity is essential to supply raw materials for small agribusinesses.

**Indicators.** The major indicator to measure progress in achieving this objective is an increase in private-sector annual employment growth from 5.2% in 1985 to 7.0% in 1995. Complementary indicators include: a) an increase in number of non-traditional exporting firms (from 1500 in 1990 to 2000 firms in 1995); b) policy improvements for exports (reducing foreign-exchange overvaluation from 18% in 1991 to zero percent in 1995); c) policy constraints for SMEs to reduce the number of goods under price controls from 61 to zero between 1985 and 1995; and d) annual increase in profitability of small firms by five percent between 1990 and 1995.

**Feasibility and Cost-effectiveness.** USAID focuses on two areas--small enterprise development and non-traditional exports--which generate the bulk of the jobs in Kenya. SMEs provide more than half of all new jobs annually. USAID increasingly targets smaller firms because jobs created in micro-enterprises absorb more workers and require far fewer aid resources (less than \$500 per job) than those created by larger and more formal firms. Most of these new jobs stem from small loans (less than \$1,000) made at commercial rates with a 95% repayment rate.

**Progress in 1993-1994.** Non-traditional exports, as a percentage of total exports, have increased from 42% in 1989 to nearly 50% to date. This is due to an improved trade policy environment and implementation of the Duty and Value Added Tax Remission Scheme, designed to make Kenyan exports price competitive. Horticulture, which is now the fourth-largest foreign-exchange earner with a predominantly female work force, increased exports by nine percent in 1994. Under the PED project, assistance to nearly 25,000 firms has helped create about 16,000 jobs, a figure that substantially exceeds our target.

**Donor Coordination.** The Netherlands, United Kingdom and European Union are the major donors involved with small-business programs. Many donors coordinate support for technologies appropriate to small scale entrepreneurs.

**Constraints.** Maintaining the momentum of economic liberalization, which leads to higher growth rates necessary for job creation, is an immediate challenge. In addition, rapid population growth has meant that employment opportunities have not kept pace with the growing labor force.

**Cross-cutting Issues.**

#### **BUILDING DEMOCRACY (\$1,460,676).**

Consistent with the goal of promoting sustained broad-based economic growth, USAID provides assistance to democracy and governance activities. These activities include election monitoring, voter



education, training of refugees and promotion of human rights through civic education. They also serve to promote a more informed civil society, and civil and political rights.

The December 1992 multiparty elections for Kenya brought a transformation to the political system, but problems continue. The challenge remains to promote a more tolerant and effective political culture. The Strengthening Democracy and Governance (D/G) project specifically addresses these concerns. The project includes a legislative performance component to enhance quality of staff support for legislative operations and improve skills of members of Parliament. To improve accountability and governance, the project will assist the Ministry of Finance in improving the revenue collection and budgetary information system, enhancing skills of the staff of the Controller General and Auditor General offices and the members of the Public Accounts and Public Investment Committee. Other components of the project include policy analysis, through support to a newly-established Institute for Policy Analysis and Research, and a strengthening civil-society component, with support to NGOs promoting civil and political rights.

#### **Strengthening Institutional Capacity of NGOs/PVOs (\$1,000,000).**

Kenya has a large PVO community, with most of its activities focused on implementation of integrated development projects at the grassroots level. The role of these organizations is becoming more critical as the effects of structural adjustment and other socio-political issues constrain the GOK's ability to provide public services. PVOs are critical actors in the D/G arena as well as implementors of food and disaster assistance programs. One critical element in the implementation of PVO activities is the institutional capability of the organizations to carry out the work, as well as evolve into sustainable organizations. USAID supports this effort through its sectoral programs as well as through an umbrella PVO-support project. This strategy supports institutional capacity development among organizations engaged in activities consistent with USAID/Kenya's strategic objectives.

#### **Training (\$300,000).**

The Mission portfolio supports two other training activities: the Human Resources Development Assistance and Training for Development. These provide long and short-term technical training across the three USAID/Mission strategic objectives, making possible greater participation and improved sustainability.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$6,951,000).**

The P.L. 480 Title II activities address problems of food insecurity in Kenya through development and emergency programs implemented by UN and PVO partners. In addition to the three PVO partners with which the Mission is currently collaborating (Catholic Relief Services, Food for the Hungry, World Vision), two PVOs (TechnoServe, World Concern) have expressed an interest in starting up food security programs in 1996. These activities would complement agricultural productivity objectives.

Emergency programs have addressed immediate food and related emergency needs for vulnerable groups affected by drought/food deficit and civil disturbance. In 1992, resources for emergency assistance (from USAID's Bureau for Humanitarian Response) were funded at over \$27 million to 2 million beneficiaries; in 1993, over \$54 million to 1.4 million; and in 1994 over \$28 million to approximately 950,000.

#### **Other Donor Resource Flow.**

In 1993, the U.S. was the fourth largest bilateral donor and the sixth largest overall donor, providing about 7% of all bilateral and 3% of total donor funding. The leading donors in Kenya are the World Bank, the European Union, Japan, United Kingdom, Germany and the United States.

**KENYA**  
**FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
<b>1. Reduce Fertility and Incidence of HIV/AIDS.</b>						
Dev. Fund for Africa	--	6,608,035	--	--	--	6,608,035
Dev. Assistance Fund	--	7,775,000	--	--	--	7,775,000
<b>2. Increase Agricultural Productivity and Farm Income.</b>						
	4,600,000	--	3,235,002	--	--	7,835,002
<b>3. Increase Private Enterprise Employment.</b>						
	6,716,514	--	--	--	--	6,716,514
<b>Cross-cutting issues:</b>						
Building Democracy	--	--	--	1,385,676	--	1,385,676
Strengthening Institutional Capacity of NGOs	400,000	400,000	200,000	--	--	1,000,000
Human Resources Dev.	75,000	100,000	50,000	75,000	--	300,000
P.L. 480, Title III	--	--	--	--	6,951,000	6,951,000
<b>Total</b>	<b>11,791,514</b>	<b>14,883,035</b>	<b>3,485,002</b>	<b>1,460,676</b>	<b>6,951,000</b>	<b>38,571,227</b>

Acting USAID Mission Director: George Jones

## MADAGASCAR

FY 1996 Development Fund for Africa Request: ..... \$30,277,152  
FY 1996 Development Assistance Request: ..... \$1,000,000  
FY 1996 P.L. 480 Title II Request: ..... \$3,174,000

Madagascar, the world's fourth largest island, has a population of 12 million, and is a conundrum of poverty and promise. One of the world's poorest nations with a per capita gross national product of \$223, Madagascar has moved peacefully from a dictatorship to a democratic, multi-party government while beginning to take important strides toward a liberalized, market economy. Supporting these positive trends, the USAID program is focused on accelerating economic growth through stimulating private investment and employment and sustainably balancing population growth with the country's unique natural resources. Assistance to Madagascar supports U.S. interests by promoting free enterprise development, opening new or formerly protected markets for American firms (e.g., tourism, exotic raw materials) or products (e.g., telecommunications, heavy construction and agricultural machinery), promoting democratic values and institutions, and reducing the destruction of one of the globe's most valuable sources of biodiversity with, as yet, fully unknown and unexploited agricultural, pharmaceutical, and commercial potential.

### The Development Challenge.

Agriculture is the heart of the Malagasy economy, with rice the principal crop. High population growth (2.9%) contributes to the ongoing decline in the standard of living while severely threatening Madagascar's rich and unique ecology. Indeed, widespread poverty (it is likely that half of all households are under the poverty line) may be the largest threat to the fledgling democracy and realization of Madagascar's high economic potential. Fifty-one percent of children under five are chronically undernourished. Forty-five percent of the population is under 15. Infant mortality is also high at 125/1000 live births. These factors produce a high labor force growth rate and increasing high unemployment and under-employment levels.

This bleak picture is in striking contrast to the country's rich resource base. The adequate rainfall, reasonably good soils, agro-climatic variation, mineral wealth and good education levels found in Madagascar are inconsistent with a UNDP Human Development Indicator level of 131 (out of 173 countries) and the degree of abject poverty evident everywhere.

Transformation to a market economy began belatedly under the socialist dictatorship. Between 1986 and 1990, the economy grew by 13%. While the two-year transition to democracy which began in 1991 was important and necessary, the unfortunate side effect was putting economic growth on hold, thus further aggravating the downward poverty spiral. The recent free Presidential election and the installation of an economic reform government, however, have increased the prospects for putting Madagascar's macro-economic house in order and re-starting economic growth.

### Strategic Objectives (SOs).

USAID's four strategic objectives are presented below. Cross-portfolio activities include a democracy and governance target to strengthen civil society, along with training and a P.L. 480 Title II program.

### ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$13,016,576).

#### SO 1. Establish a competitive market environment for micro and small firms (\$1,500,000).

Madagascar's widespread poverty can only be redressed by rekindling economic growth and creating jobs for the rapidly growing labor force. Micro- and small- enterprises (MSEs), which comprise more than 90% of all registered businesses, offer the best and most equitable avenue to do both. Micro-

and small-entrepreneurs need increased access to credit, i.e., financial markets, and also to legal, judicial and business services. The USAID strategy combines financial market reform and government policy changes to create a positive enabling environment for private investment and for micro- and small- enterprise growth.

**Activities.** Subject to the availability of funds, the Mission will allocate \$24 million between FYs 1993-1998 under this strategic objective. Under an ongoing financial reform effort, USAID is working with the Central Bank to implement stable, non-inflationary monetary policies and assisting the National Postal Savings Bank (PSB) to expand and improve financial services for low-income households. A new FY 1995 micro- and small- enterprise activity will (1) provide increased business-support services to MSEs; (2) help MSEs find appropriate technologies; (3) assist the Government of the Republic of Madagascar (GRM) in revising the country's antiquated commercial code and in developing an appropriate regulatory framework; and (4) introduce simple, low-cost procedures to adjudicate business disputes, all with the goal of reducing high MSE transaction costs so they can compete in the formal market economy.

**Indicators.** The following indicators measure achievement of this objective: (1) a 300% increase in customer deposits at the Postal Savings Bank (\$14 million) by 1997; (2) a reduction in Madagascar's fiscal deficit, indicative of a broader-based tax collection system in place; and (3) an increase in the number of new Malagasy firms registered.

**Feasibility and Cost-effectiveness.** USAID works, wherever possible, with existing structures, firms and groups to serve as program retailers. For example, the PSB has more rural branches than any other private or public bank. Also, rather than a more difficult and expensive institutional development focus, USAID is emphasizing narrow, performance-related reforms to the environment in which MSEs work. Finally, the program focus is on poor savers and the smallest firms.

**Progress in 1993-1994.** In 1994, USAID's financial market reform program achieved: (a) a major restructuring of the PSB charter to respond to customer needs and to allow an increase in interest rates on deposits; and (b) government repayment of a long-standing debt of \$1.5 million to the PSB which enabled it to move into the black for the first time in recent history. Higher interest rates paid by the GRM Treasury have allowed the PSB to raise the interest rate for low-income savers to 12.8% (up from 8% at the beginning of the year), and will solidify the Bank's financial stability while raising depositor interest income. Thus, even as the economy worsened, the number of depositors grew from 254,770 on September 30, 1993, to 276,430 by November 30, 1994.

**Donor Coordination.** USAID's financial reform effort is a key piece of a broad financial sector reform effort led by the World Bank and further supported by Switzerland and Sweden. USAID's micro- and small- enterprise activities will be leveraged and divided geographically with the French, the European Union, the World Bank, several United Nations organizations and a number of international NGOs.

**Constraints.** There has been steady and important progress in liberalizing the economy, the most notable and politically courageous decision being the floating of the Malagasy currency in May 1994 which has increased export earnings for 1994 by 23%. Progress on the budgetary control side has been noticeably weaker. This has led to a larger government budget deficit and has further reduced domestic funds availability required for private sector growth.

**SO 2. Increase market access for neglected regions (\$9,191,536 of which \$8,526,576 is for Economic Growth and \$664,960 is for Building Democracy).**

Lack of market access for high potential but neglected agricultural zones has restrained Madagascar from producing the agricultural surpluses needed to generate higher incomes and to sustain higher rates of economic growth. Agricultural productivity is limited by the lack of efficient technology and inputs, while marketing is constrained by inadequate transport infrastructure. By increasing market access

of these high-potential zones, USAID will help raise small farmer incomes and boost the sales and employment of rural small and medium-sized agribusinesses.

**Activities.** A commercial agricultural promotion program will: (a) help rural-based small- and medium-sized agribusinesses identify new markets and improve productivity and output; and (b) rehabilitate 420 miles of farm-to-market (tertiary) roads in two high-potential but neglected regions. A complementary program will encourage local participation through public and private sector partnerships to build, rehabilitate and maintain rural market infrastructure for agribusiness (e.g., storage processing, transportation).

**Indicators.** Indicators of success are: (1) a 50% increase in the production of select off-season crops and of 30% for secondary crops by 1999; and (2) increases in total petroleum sales and truck registrations in two high-potential zones (baseline data is being collected).

**Feasibility and Cost-effectiveness.** The USAID investment of nearly \$40 million over the next five years will: (1) reduce market transport costs substantially through the rehabilitation of 420 miles of farm-to-market roads; (2) generate new sales by agribusiness firms working with producer groups, increase production of key agricultural commodities by 20% to 50%, thereby boosting small farmer incomes; (3) raise employment among small- and medium-sized construction firms; and (4) increase market access of rural households. The funding for road maintenance addresses a key, yet neglected, aspect of previous donor road projects. For all activities, local beneficiaries actively participate in project activities and have a stake in achieving results.

**Progress in FY 1993-1994.** Past USAID agricultural efforts show that farmers using new rice varieties can double yields without fertilizer and achieve 300-400% increases with fertilizer and that rural-based enterprises can generate production and sales with appropriate technical assistance. Moreover, as a result of USAID-supported agricultural marketing reforms, farmers have proven responsive to the new liberal policies and increased production for markets. The number of produce collectors increased 50% in Fianarantsoa and 66% in Mahajanga from 1990 to 1992 while prices paid to farmers increased 50% and 100% respectively. The Mission's new agricultural promotion, road rehabilitation and infrastructure activities start in 1995.

**Donor Coordination.** The World Bank and the European Union will construct and/or rehabilitate key primary and secondary roads into which the USAID farm-to-market roads will feed. The World Bank and the French are also supporting institutional strengthening and urban infrastructure development in four urban areas within USAID's two high-potential zones.

**Constraints.** Madagascar's agricultural productivity is affected by adverse weather conditions, including both drought and cyclones, such as last year's Cyclone Geralda which dramatically reduced national rice production in 1994. USAID support for importing and disseminating better production technologies, inputs, equipment and storage techniques should raise productivity so that the country as a whole can accumulate the stocks needed to cope with poor weather.

## **PROTECTING THE ENVIRONMENT (\$11,979,300).**

### **SO 3. Reduce natural resource depletion in target areas (\$11,979,300).**

Madagascar's natural resource base is seriously threatened by human poverty and unsuitable government policies. Slash-and-burn agriculture has destroyed over 80% of the tropical forest cover and is converting needed soil nutrients into greenhouse gases which, in turn, impact negatively on global climate change. Soil erosion is among the worst in the world. The destruction of this treasure trove of biodiversity, the loss of habitat and the related extinction of rare plants and animals is of global concern, especially with regard to new materials needed for advances in agriculture and medicine.

**Activities.** USAID's approach is to integrate conservation and development activities into the lives of the people who live around national parks and forests. In order to preserve tropical forests and biodiversity, rural people must take responsibility for managing their natural resources in non-destructive and sustainable ways. USAID is also building the capacity of local Malagasy conservation groups and helping bring about policy reforms which empower local populations and give them a share of the benefits of park entry and forest cutting fees, have created Madagascar's first environmental impact assessment law, and will establish an innovative private environmental foundation. Support is also provided through a debt swap arrangement to support agro-forestry extension, tree planting and campaigns against wildfire, .

**Indicators.** The indicators for achieving this objective are: (1) a reduction in expected forest loss by 8.6 million acres by the year 2000; and (2) 40% of target households in environmentally sensitive areas adopt sustainable, income-producing methods by the year 2000.

**Feasibility and Cost-effectiveness.** The economic costs associated with environmental destruction and natural resource depletion in Madagascar are alarmingly high. The cost of decreased agricultural productivity due to soil loss and fertility decline, the loss of productive forests, damage to infrastructure due to soil erosion, and costs associated with infrastructure maintenance and repair is estimated at \$290 million annually or 15% of Madagascar's gross domestic product. Only 24.2 million acres of forest cover remain right now. By the year 2000, in the absence of conservation programs, it is calculated that over half of that forest cover, an additional 12.2 million acres, and the associated biodiversity will be destroyed forever. Also, USAID's approach is to work through U.S. private voluntary organizations (PVOs) and Malagasy environmental non-governmental organizations (NGOs) and to insist on close participation of beneficiaries in all local activities.

**Progress in 1993-1994.** Six major integrated conservation/development projects now have teams working in and around national parks enhancing conservation awareness and reducing encroachment pressures. Alternative technologies used by villagers for employment and income diversification include tourism, agro-forestry, fish farming and beekeeping. As a result of USAID-supported regulatory changes, local populations now receive 50% of all national park entrance fees to use for local projects such as building health clinics and schools, thus making a clear link between development needs and conservation. Additionally, 400 environmental protection agents have been trained and assigned to rural forest areas through a debt swap program with the World Wildlife Fund. Also, the USAID-supported institution responsible for the coordination of activities in national parks and their peripheral zones has become an increasingly able and effective institution.

**Donor Coordination.** The National Environmental Action Plan is the framework for donor-government coordination. Other major donors include Germany, France, Switzerland, UNDP, FAO and the World Bank. U.S. PVOs and universities are also major actors, especially at the field level. As the lead donor in biodiversity and in terms of financial and staff resources, USAID regularly calls and chairs donor coordination meetings. Coordination in the environmental sector in Madagascar is excellent.

**Constraints.** The foremost constraint is rapid population growth and the mounting population pressures on the land and the natural resource base. Many Malagasy decision-makers are still unaware of the strong link between natural resource management and economic sustainability. Priority attention and sufficient resources are not allocated by the GRM for the management of the natural resource base.

**STABILIZING POPULATION GROWTH (\$5,416,316 of which \$4,416,316 DFA and \$1,000,000 DAF).**

**SO 4. Reduce total fertility (\$8,006,316 of which \$2,590,000 is for Economic Growth and \$5,416,316 is for Stabilizing Population Growth).**

Madagascar's current annual population growth rate is 2.9%. At this rate, the 1993 population of 12 million will double in 24 years. This poses a serious obstacle for development in Madagascar as the

island's carrying capacity is limited by low productivity agriculture. In addition, such growth requires unprecedented increases in jobs, health care services and schools, all of which are inadequate to meet present needs.

**Activities.** The program focuses on the rapid expansion of high quality family planning with an increasing emphasis on maternal and child health services. Support to child survival activities will focus on diarrheal disease, nutritional practices, respiratory illnesses, and essential vaccinations, all of which reduce desired family size.

**Indicators.** The prime family planning success indicator is the reduction in the average number of children born per woman from 6.6 to 5.6 by 1999. This will be achieved through an increase in the contraceptive prevalence rate from 3% to 18% by 1999 and in couple-years of protection of 380,000 in 1998, and a measurable reduction in childhood undernutrition (to be determined).

**Feasibility and Cost-effectiveness.** Investments in population programs have a direct impact on reducing major social service expenses (e.g., schools, hospitals), while easing the pressures on urban zones and on job creation. USAID's population program will meet the high unmet demand and enable women to space births properly, reduce the number of high risk births which contribute heavily to maternal and infant mortality, and also reduce the strain on the environment and the economy caused by excessive population growth. In addition, USAID is using low-cost Malagasy NGOs and existing health service structures to expand services.

**Progress in FY 1993-1994.** Earlier USAID support (1988-1992) of family planning services has already contributed measurably to the dramatic drop in the total fertility rate to 6.1 in 1992. Initial efforts have strengthened organizational structures, increased collaboration with family planning organizations, and defined appropriate strategies and approaches. At the same time, protection from contraceptives provided through public and non-governmental organization sectors has increased from 82,000 couple-years of protection in 1992 to 125,000 in 1994. The number of clinics providing family planning services has tripled, from 72 in 1987 to 205 in 1993.

**Donor Coordination.** USAID is the lead donor in family planning and works closely with UNFPA, UNICEF, the European Union, the World Bank, Japan and other bilateral donors in support of population and health programs in Madagascar.

**Constraints.** The health service system in Madagascar is extremely weak, particularly in the public sector; most rural people have no access to health care. Clinical staff at all levels are poorly paid, motivated and trained.

#### **BUILDING DEMOCRACY (\$864,960).**

Following its successful support activities for four national elections during the transition to democracy, USAID is targeting assistance for Madagascar's emerging, but active, civil society to deepen the nascent democracy. USAID supports ongoing poverty analysis to assist the GRM to determine effects on the poor from major policy changes.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$3,174,000).**

USAID also provides food assistance through Catholic Relief Services to maternal and child health centers, elementary schools and other institutions, such as orphanages, under its Title II program. Starting in FY 1995 greater emphasis is being placed on upgrading the nutritional aspect of the program and more carefully measuring and monitoring the impact on children. Title II commodities (rice, cooking oil and corn/soya flour) are distributed throughout the country, well utilized and work

towards assisting Madagascar to feed those most in need while the government struggles to stabilize and strengthen the economy under a newly elected, democratic regime.

**TRAINING (\$200,000).**

Key to USAID's strategy is the development of human resources to sustain development momentum. In addition to those training activities included under each strategic objective, USAID also supports long and short-term training in the United States and Madagascar. As one example, short-term training of senior GRM telecommunications officials has led to a better appreciation of advanced technologies, an updated telecom master plan (prepared by a U.S. consulting firm) and a regulatory framework which will allow U.S. firms to compete in a market previously closed to their participation.

**Other Donor Resource Flows.**

In FY 1994, the United States provided about 10% of all donor assistance to Madagascar. The other major donors are: the World Bank, the IMF, France, the European Union, Switzerland, the United Nations agencies, Italy, Germany and Japan.



**MADAGASCAR  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Establish a Competitive Market Environment for Micro/small- Firms.	1,500,000	--	--	--	--	1,500,000
2. Increase Market Access for Neglected Regions.	8,528,576	--	--	864,960	--	9,191,536
3. Reduce Natural Resource Depletion in Target Areas.	--	--	11,979,300	--	--	11,979,300
4. Reduce Total Fertility.						
Dev. Fund for Africa	2,590,000	4,416,316	--	--	--	7,006,316
Dev. Assistance Fund	--	1,000,000	--	--	--	1,000,000
<b>Cross-cutting issues:</b>						
Poverty Analysis	200,000	--	--	--	--	200,000
Strengthen Civil Society	--	--	--	200,000	--	200,000
Human Resources Dev.	200,000	--	--	--	--	200,000
PL 480, Title II	--	--	--	--	3,174,000	3,174,000
<b>Total</b>	<b>13,016,576</b>	<b>5,416,316</b>	<b>11,979,300</b>	<b>864,960</b>	<b>3,174,000</b>	<b>34,451,152</b>

USAID Mission Director: Donald R. Mackenzie

## MALAWI

**FY 1996 Development Fund for Africa Request: . . . . . \$34,973,986**  
**FY 1996 Development Assistance Fund Request: . . . . . \$500,000**

U.S. assistance to Malawi supports U.S. interests in a political and economically prosperous Southern Africa, by promoting Malawi's democratic system of governance, private sector-led free-market development, and USAID's global health, population and environmental objectives. In spite of severe development problems, there is hope and opportunity for USAID to provide assistance that will strengthen the country's economic and political institutions and further broaden U.S. foreign policy objectives associated with the advancement of a growing, politically open and prosperous Africa. The most significant recent event was the free and fair presidential and parliamentary elections in May 1994 following thirty years of authoritarian one-man, one-party rule. With political democracy a fragile, but real achievement, the new government realizes that public support will fade quickly without demonstrable economic progress. Consequently, it is aggressively dismantling and privatizing state-owned enterprises, as well as the policy apparatus and bureaucracy that stifled private enterprise development. Simultaneously, it is attacking rural poverty through self-help and policies that encourage income generation in rural communities. Failure to free the private sector and reduce rural poverty will undermine Malawi's fledgling democracy.

### **The Development Challenge.**

Malawi is a small landlocked country with a narrow economic base and some 10 million people, 85% of whom live in rural areas and depend on agriculture. With over 60% of its people earning less than \$40 per year, Malawi is one of the world's poorest nations. Population growth (3.2%) and the infant mortality rate (134 per 1,000) are among the highest in Africa. High population density and traditional agricultural techniques lead to small land holdings, deforestation, overworked soils, and poor output. Education levels are low, particularly for women but are improving rapidly due largely to U.S. support for basic education. A low level of urbanization, small industrial sector, and transportation costs that are among the highest in the world combine to maintain agriculture as the primary sector of the economy, with maize and burley tobacco the principal crops. Agriculture, however, is highly dualistic, with a large subsistence sector and much smaller, but relatively well-developed estate sector. Malawi's macroeconomic economic policy priorities, as set forth in the recent Government of Malawi's (GOM) *Growth through Poverty Reduction* initiative is sound. In addition, macroeconomic management is marked by aggressive and realistic fiscal management, good monetary policy, and market-determined exchange rates. Economic distortions, particularly in agricultural marketing, are being reduced significantly with USAID's help. Structural reform has begun in agriculture, with clear benefits accruing to the poor majority. Enrollment in primary education has increased markedly, again with financial support from USAID.

### **Strategic Objectives (SOs).**

USAID is pursuing the following four strategic objectives in Malawi. In addition, the program consists of activities in training, transportation, and democratic participation that cut across sectoral boundaries, and are necessary to achieve these strategic objectives.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$24,023,916).**

**SO 1. Increase agricultural productivity and production (\$11,205,816, of which \$7,623,916 is for Economic Growth and \$3,581,900 is for Protecting the Environment).**

Agriculture is the largest income-producing sector in Malawi, with more than 85% of Malawians living and working in rural areas. Low smallholder productivity, and virtually no competition in input and

output markets, are the major constraints to national and household food security and increasing incomes in rural Malawi. Therefore, by expanding production alternatives and market access in agriculture, USAID programs can directly impact on rural incomes while promoting environmentally sound policies. Increasing rural incomes is key to achieving USAID's other strategic objectives.

**Activities.** Agricultural sector activities seek to increase smallholder production and incomes by encouraging smallholders to grow crops of their own choice and to market those crops freely. This has allowed farmers to increase cash income. The Agricultural Sector Assistance Program (ASAP) uses policy dialogue and technical assistance to encourage continued liberalization in the agriculture sector, specifically in changing policies which have discriminated against smallholders. USAID-supported agricultural research is developing and disseminating technological innovations, such as agroforestry techniques that will increase crop production and reduce soil erosion. The program also is developing rural for-profit and non-profit organizations that deliver a variety of agricultural services. In addition, USAID's Southern Africa Regional transportation activities support the Mission's agricultural sector objectives by opening/reopening transport routes and increasing cargo carrying capacity and efficiency. Other regionally funded activities operating in Malawi under the auspices of the 11-nation Southern African Development Community (SADC) include the Southern Africa Rootcrops Research Network (SARRNET). The purpose of SARRNET is to increase the productivity of cassava and sweet potato grown by smallholder farmers in the resource-poor areas of Southern Africa through the adoption of improved varieties and practices and the strengthening of national root crops research program capabilities.

**Related Activities.** Research has demonstrated strong links between investment in education and improved agricultural productivity, health and nutrition status and reduced fertility. Thus, activities in the education sector play a significant support role in all USAID strategic objectives in Malawi. Education activities have increased enrollment of girls, efficiency within the primary education sector, and investment in schools and teacher training facilities.

**Indicators.** The indicators for measuring progress toward achieving this objective are to: (1) increase gross food crop production from 1.6 million metric tons in 1985 to 2.6 million in 1995; and (2) increase average maize production from 1.2 tons per hectare in 1985 to 1.4 tons per hectare in 1995.

**Feasibility and Cost-effectiveness.** To move beyond low-level subsistence agriculture, Malawi needs to intensify food production and to increase smallholder cash crop productivity. Success in these areas will free-up land that can then be devoted to cash crops. Suitable high-yielding maize varieties, improved agroforestry practices, and alternative low-input food crops are available, and are gradually being adopted. Adoption rates can and must be accelerated. Reform of agricultural marketing arrangements will hasten the takeover by the private sector of seed and fertilizer marketing for small farms, which will increase competition and lower prices. Current technologies will allow a 50% increase in yield/area for the next decade, and thus permit a similar rate of increase in cash crop acreage. USAID-supported policy reforms are liberalizing cash and food crop marketing regulations and price controls, allowing smallholders to market larger quantities at higher prices.

**Progress in 1993-1994.** USAID's agriculture and drought relief activities contributed directly to a dramatic increase in use of high-yielding variety (HYV) maize in 1992/1993 and a tremendous increase in production of drought resistant crops. USAID provided, *inter alia*, seed and fertilizer packs to jump start food production for the most seriously affected. This resulted in a bumper crop 16% larger than the largest previous harvest. However, slippage in the 1993-1994 growing season occurred with renewed drought. Private sector distribution of seed and fertilizer increased from 25% to about 40% of market share and prices fell due to increased competition. Cash crops produced by smallholders and sold at international auction increased from 31% to 83% of total smallholder production, indicating a massive move away from the monopolistic parastatal marketing company. Cash earnings are having positive effects on rural incomes directly and indirectly through increased purchases of inputs for food

and cash crop production, increased demand for goods and services, increased demand for labor and certain types of land, and increased investment in rural microenterprises.

**Donor Coordination.** Both the World Bank and the European Union have programs that contribute to the achievement of this strategic objective. The World Bank funds an Agricultural Services Project that supports development and dissemination of productivity-increasing technologies. In addition, it also supports the Malawi Rural Financial Services Project, which seeks to transform rural and agricultural finance into a private sector operation. The European Union is helping Malawi to improve food security through expanded smallholder use of fertilizers, and the promotion of improved land husbandry techniques. USAID works closely with these and other donors in tracking developments in the agriculture sector as part of collaborative donor coordination across all sectors.

**Constraints.** Malawi risks repeated drought and other natural calamities, but expansion of drought resistant crops and soil protection technologies are having a positive impact. A conducive policy environment coupled with availability of technologies and competitive input and product prices will help the rebuilding of stocks. Over-reliance on tobacco as a cash crop puts the country at risk of unfavorable market trends. Instability in Mozambique has denied Malawi access to safe and economical transport to and from world markets.

In addition to addressing broad-based economic growth, this strategic objective will also address environmental and wider U.S. national interests goals by improving soil conservation, agroforestry, and environmental monitoring efforts. Two years ago, investments in drought resistant crop varieties, liberalization of markets, and famine early warning systems lessened the impact of Malawi's most serious drought in a century and enabled the country to rebound with record harvests when the rains resumed. Moreover, USAID plans training programs in the amount of \$900,000. These activities provide training and technical assistance to improve the institutional efficiency and planning capacity of both the private and public sectors in Malawi.

### **SO 3. Reduce infant and child morbidity and mortality (\$2,300,000).**

Mortality data indicate a very serious child survival problem in Malawi. The 1992 demographic and health survey showed nearly half of all children under age 5 are stunted, and about half of these severely stunted. Low weight for height was found in 5% of these children, with over 1% severely wasted. Malaria, diarrhea, and acute respiratory infections are the principal causes of child deaths, and deaths from AIDS are becoming significant. Improved child survival also contributes significantly to the fertility reduction objective, because an increase in children surviving leads to fewer births. In addition, it contributes to the food security objective -- fewer children mean fewer mouths to feed.

**Activities.** To reduce infant and child mortality, the program focuses on increasing clean water supplies in rural areas and the timely, accurate, and effective diagnosis and treatment of malaria. This includes training large numbers of new health workers, increasing health service delivery in rural areas, and improving the efficiency of decentralized health service delivery.

**Indicators.** The indicators for measuring progress toward achieving this objective are: (1) decrease infant mortality from 151.0 deaths per 1,000 in 1984 to 100.0 deaths per 1,000 in 1998; and (2) decrease under-5 mortality rates from 258.0 deaths per 1,000 in 1984 to 150.0 deaths per 1,000 in 1998.

**Feasibility and cost-effectiveness.** Malaria treatment and prevention, increased access to safe water, and increased community-based strategies to promote better health and sanitation practices such as encouragement of breast feeding for longer periods and use of oral rehydration therapy are low cost, and easily sustainable actions that have been shown to have considerable positive impact.

**Progress in 1993-1994.** Child morbidity rates dropped slightly. USAID-sponsored research resulted in making Fansidar (or sulfadoxine pyrimethamine) the recommended treatment for malaria, and it is available without prescription. However, the price is relatively high in relation to the per capita income in Malawi. The USAID program will develop less-expensive alternatives for distributing the drug, while it also accelerate income generating activities. The 1992 demographic and health survey reported that over half of children suffering from diarrhea were treated at home with some form of oral rehydration therapy. USAID assistance has enabled the Ministry of Health to provide training for community health assistants, and to deliver child survival services to underserved rural areas. The infant mortality rate is now 134 deaths per 1,000 live births, which exceeds USAID's planned reduction to 135.8 by 1995. The under five mortality rate reached 234 per 1,000 as compared to 246 per 1,000 five years ago.

**Donor Coordination.** USAID is a leader in the Health Donor Coordination Group, which meets regularly and holds coordination meetings with Ministry of Health officials. The World Bank finances a population/health/nutrition sector credit that finances infrastructure development conducive to greater decentralization and rationalization of health services. USAID jointly programs some resources with the United Nations' International Children's Emergency Fund (rural health delivery, diarrheal diseases and nutrition), Britain's Office of Development Assistance and the United Nations' Family Planning Agency (family planning and education).

**Constraints.** A shortage of health care workers, the high price of malaria and other basic drugs, and insufficient access to potable water are constraints to improving health status. Other constraints include a dearth of rural transport services to facilitate access to clinics. USAID is expanding its activities to include private health providers and non-governmental organization's (NGOs) in service delivery to accelerate an improvement in rural health status.

#### **SO 4. Control the spread of AIDS (\$5,400,000).**

AIDS is rapidly becoming a major cause of death in Malawi. Especially hard hit are children under five and young adults aged 20-35. Currently, an estimated 14% of the adult population tests positive for the human immunodeficiency virus (HIV), and projections are that two percent of adults are infected annually. Thirty percent of urban adults are infected and the spread of the disease in rural areas is currently the fastest known. An additional 555,000 deaths from AIDS are expected by the year 2005. Without AIDS, life expectancy would have reached 53 years by 2000-2005; with AIDS, life expectancy will be only 45.4 years. AIDS will have a devastating impact on development efforts, exacerbating an acutely short supply of trained human resources, straining health care resources, and reducing work-force productivity.

**Activities.** USAID's fertility reduction and AIDS prevention and control activities support government and private sector efforts. Programs in AIDS control support Malawian efforts to inform people about risks and transmission of the AIDS disease in order to change behavior. This includes increasing the supply and appropriate use of condoms, increasing access to education, counselling and AIDS prevention materials, and reducing the incidence of related sexually transmitted diseases. By integrating AIDS control and family planning activities, USAID achieves economies of scale as multiple-service delivery channels are created.

**Indicators.** The indicators for achieving this objective are: (1) reduce the rate of increase in HIV prevalence among urban clients from 30% in 1993 to 27.4% in 1998; (2) reduce HIV prevalence among rural clients from 14.0% in 1993 to 8% in 1998; and (3) increase condom use among males age 15-24 from 7% in 1992 to 35% in 1998.

**Feasibility and Cost-effectiveness.** The feasibility of reversing infection rates depends on educating and mobilizing political, religious, and medical forces to recognize the severity and complicated social and medical nature of AIDS. USAID-financed, expert assistance and data analysis has enabled the Malawian government to aggressively attack the challenges of behavior change and disease control.

Working with the GOM's National AIDS Control Program, USAID has mounted a new program to mobilize resources across sectors that will increase condom use and control the spread of other sexually transmitted diseases, the two areas to date which have shown to be most effective in combatting the transmission of AIDS.

Progress in 1993-1994. The number of AIDS victims and HIV-infected individuals continues to increase rapidly. HIV presence among pregnant women at one clinic stood at 32% in early 1994. A 1993 survey of 12 rural districts found a 12% seropositivity rate, compared with 8% a year earlier. New AIDS cases and annual deaths from AIDS are expected to rise steadily for the next 5-10 years. The 1992 demographic and health survey indicated that only 6.3% of currently married men report using condoms. However, more recently sales have reached 250,000 units per month, well above the target of 2.0 million annually. This is a result of progress in promoting behavioral messages in a variety of ways, including direct advertising for condoms.

Donor Coordination. Other donor support for this strategic objective is part of the agenda of the Health Donor Coordination Group, which is discussed under strategic objective number two.

Constraints. In spite of a dramatic increase in public awareness of AIDS, behavioral change occurs slowly. Positive impact from tomorrow's behavior change will take nearly a generation to register. As the health situation of those already infected deteriorates, Malawi will face the continued depletion of its most important human resources, men and women aged 20-40.

**STABILIZING WORLD POPULATION GROWTH (\$6,415,250 of which \$5,915,250 DFA and \$500,000 DAF).**

**SO 2. Reduce fertility (\$13,415,250 of which \$7,000,250 is for Economic Growth and \$6,415,000 is for Stabilizing Population Growth).**

Although the total fertility rate dropped from an estimated 7.2 children per woman in 1984 to 6.7 in 1992, overall fertility remains high, with pockets of very high fertility persisting in rural areas. As one of the world's poorest countries, Malawi can sustain neither a rapid population growth rate nor the debilitating effects on maternal and child health which result from such high fertility.

Activities. USAID's fertility reduction and AIDS prevention and control activities finance government and private sector efforts. By integrating AIDS control and family planning activities, economies of scale are realized and multiple-service delivery channels are created. USAID is implementing a major effort in child spacing to improve maternal and child survival. This includes supporting public and private family planning and girls education efforts, specifically increasing the knowledge, supply, and use of family planning and child spacing services. Training and activities to help institutions work more efficiently, enhance program sustainability.

Indicators. The following indicators measure achievement of this objective: (1) reduce total fertility from 7.2 in 1984 to 6.0 in 1998; (2) increase contraceptive prevalence rate from 1.0% in 1984 to 20% in 1998 ; and (3) increase girls' gross enrollment rate in primary schools from 74% in 1984 to 125% in 1998.

Feasibility and Cost-effectiveness. Achieving this objective, together with the child survival objective, will move Malawi into a demographic transition. The registered rates of change in total fertility, contraceptive prevalence, and child mortality are consistent with one another and are moderately encouraging given the low income of Malawi and the social repression of the recent past. The costs of putting in place contraceptive delivery, child spacing, and child survival services in Malawi are small in relation to the benefits of future reduced costs in health and education services. Fertility reduction also increases the potential for cash crop production given reduced subsistence food requirements due to smaller family size.

**Progress in 1993-1994.** The contraceptive prevalence rate increased to 7.4%. However, knowledge of modern contraceptive methods increased to 92% among married women and surveys indicated a large unmet demand for contraception. The new Malawian Government liberalized health services, child-spacing policies, and contraceptive guidelines to provide easy access to child-spacing services. The female primary school enrollment rate rose dramatically, from 74% of the girls in a given age cohort enrolled in primary school in 1984 to over 125% in 1994, exceeding the 1998 target. This is attributable to USAID activities directed at girls' education. The 1992 demographic and health survey documented that better educated women have fewer children than less educated ones.

**Donor Coordination.** Other donor support for this strategic objective is part of the agenda of the Health donor coordination group that was discussed under strategic objective number two. As a result of its related work in primary and girls' education, USAID/Malawi chairs the donor coordination group on education.

**Constraints.** While it is believed that Malawians are ready for rapid cultural change after years of repression, the rate of reproductive behavioral change is harder to predict. Moreover, there are still strong social and religious elements which resist the use of modern contraceptive methods for population control.

#### **Cross-cutting Issues.**

#### **BUILDING DEMOCRACY (\$1,402,920).**

Because of the interrelationship between political and economic democratization, USAID focuses resources throughout its portfolio on increasing the participation of Malawians in both transparent and accountable political institutions and economic opportunities. In addition, USAID plans to continue providing assistance for democracy and governance activities to help consolidate Malawi's fragile democracy. Since the successful outcome of the 1994 multiparty elections, USAID assistance has moved beyond electoral support into judicial and constitutional reform, political party development, and fostering of civic and human rights educational organizations. These activities are aimed at empowering Malawians to assert and realize their new freedoms and opportunities in the economic, political and human rights spheres.

#### **Other (\$1,800,000).**

USAID plans to obligate \$700,000 to training programs--discussed under economic growth--and \$1,100,000 to support activities to strengthen indigenous NGOs. From the latter figure, a total of \$1,000,000 supports economic growth, \$50,000 will be dedicated to protecting the environment, and an additional \$50,000 will contribute to building democracy.

#### **Other Donor Resource Flows.**

In FY 1994, the United States provided about 10% of all donor assistance to Malawi, making it the largest bilateral donor. Other major donors are: the World Bank, the International Monetary Fund, the European Union, the United Kingdom, Germany, and Japan.

**MALAWI  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Increase Agricultural Productivity and Production.	7,823,916	--	3,581,900	--	11,205,816
2. Reduce Fertility.					
Dev. Fund for Africa	7,000,000	5,915,250	--	--	12,915,250
Dev. Assistance Fund	--	500,000	--	--	500,000
3. Reduce Infant and Child Mortality and Morbidity.	2,300,000	--	--	--	2,300,000
4. Control the Spread of AIDS	5,400,000	--	--	--	5,400,000
<b>Cross-cutting issues:</b>					
Democracy/Governance	--	--	--	1,352,920	1,352,920
Human Resources Dev.	700,000	--	--	--	700,000
NGO Support	1,000,000	--	50,000	50,000	1,100,000
<b>Total</b>	<b>24,023,916</b>	<b>6,415,250</b>	<b>3,631,900</b>	<b>1,402,920</b>	<b>35,473,986</b>

USAID Mission Director: Cynthia F. Rozell



## MALI

FY 1996 Development Fund for Africa Request: . . . . . \$34,990,331  
FY 1996 Development Assistance Fund Request: . . . . . \$800,000  
FY 1996 P.L. 480 Title II Request: . . . . . \$309,000

Mali is a landlocked country of nine million people straddling the savanna and desert in West Africa. Its per capita Gross Domestic Product of \$310 has decreased by 2.7% annually since 1980. Mali has one of the best records in West Africa in carrying out economic reform, earning the respect and confidence of the international community. It has, in addition, made significant progress in creating a true democracy following more than twenty-two years of military dictatorship. U.S. assistance in Mali supports U.S. interests in democratic governance, free market development and food security.

### The Development Challenge.

Mali's high population growth rate of 3% and its extremely high fertility rate of 7.1 are obstacles to improving living conditions. Health conditions are among the poorest in the world, with 102 out of every 1,000 children dying before the age of one. Only 30% of children and 22% of girls attend primary school. As a result, the literacy rate is one of the lowest in the world.

Mali became a parliamentary democracy in 1992 and is struggling to establish democratic institutions. It will take time for Malians to be convinced of the capacity of these institutions to resolve the country's problems. As the national Government decentralizes power to local communities and regional bodies, and as these institutions gain the power to address their own problems, the population is becoming more confident in the entire system of governance. The survival of democracy in Mali has been challenged by an ongoing rebellion by minority populations in the North and the efforts by well-organized interest groups to impose their agenda on the Government.

### Strategic Objectives (SOs).

USAID is pursuing three strategic objectives in Mali. In addition, the program consists of activities in training, and democracy and governance which cut across sectoral boundaries in support of these objectives.

### ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$28,269,345).

#### SO 1: Increase private sector participation in the economy (\$7,000,000).

While the Malian Government has made significant progress in liberalizing the economy, the business environment still discourages many Malians from participating formally in the private sector. This objective focuses on changing the role of government from one of controlling business and taxing away profits to one of supporting business development. Through activities supporting this objective, USAID is helping expand opportunities for Malians to participate in the formal private sector, leading to increased incomes and broad-based economic growth.

Activities. USAID efforts to help the Malian Government better support business, include reform of the budget process, deregulation of business, and the creation of functioning commercial and administrative courts. To help decrease the Government's burden on the economy, the Mission is helping streamline the tax code, supporting the liberalization of rice markets, prompting the privatization of rice mills, creating a market information system, encouraging lending to rural women for small loan activities, providing credit to grain traders, and training artisans and other private business people in management. The Mission is also working to improve the institutional capacity of Malian non-governmental organizations (NGOs), through grants to U.S. private voluntary organizations (PVOs) such as Save the Children and World Education, to engage in these activities.

**Related Activities.** Increasing the productivity of labor is necessary for the private sector to become more competitive. USAID's initiative to improve basic education, especially for girls, limit the spread of AIDS, and improve the delivery of health services will develop the human capacity needed for greater productivity. The Mission's efforts to train government officials to perform audits and improve financial management will also help the private sector to operate more efficiently.

**Indicators.** Indicators include: 1) increasing private investment in the economy from \$150 million in 1989 to \$340 million in 1996; and 2) increasing budget revenues from \$171.2 million in 1988 to \$340 million in 1996, through increasing the tax base and establishing equitable rates.

**Feasibility and Cost-effectiveness.** The Malian Government is committed to taking the difficult steps necessary to stabilize and adjust the economy, as shown by its satisfactory progress in meeting IMF and World Bank conditions. Nevertheless, overvaluation of the currency, an issue beyond the full control of the Government, discouraged investment activities through 1993. Since the early 1994 devaluation, the private sector has had a greater incentive to invest. In this environment, USAID's efforts to help the private sector will translate into increased revenue for producers and suppliers, increased employment, and greater commercial activity. By helping the Government increase its revenue through lower tax rates and an increased number of taxpayers, USAID will encourage businesses to move from the informal to the formal sector, thereby increasing their access to credit and business services.

**Donor Coordination.** The structural adjustment program being carried out by the Malian Government is a multi-donor effort supporting the operation of an appropriate macroeconomic, legal and regulatory framework to encourage formal private sector investment. In efforts to directly promote the private sector, USAID is coordinating closely with the World Bank, which funds a private sector development project. The Mission works closely with the World Bank and the French in supporting the development of small-scale business cooperatives. Cooperation among the donors is extraordinarily close on cereal market liberalization, health and education.

**Progress in 1993-1994.** USAID has made a modest but important contribution to creating an appropriate environment which encourages formal private sector investment. The creation of commercial and administrative courts, which would not have existed without USAID investment, has increased the confidence of private sector actors, as demonstrated by the hundreds of cases litigated within the last two years. USAID's involvement in streamlining regulations and making the budget process more rational and transparent is contributing to an improved business climate. In 1993, progress was minimal in increasing both formal private sector investment and government revenues, due to the overvalued currency and oppressively high tax rates. As a result of the January 1994 devaluation, investment is expected to jump from 12.6% to 14.1% of GDP. By the end of 1994, the Government decreased income tax rates by ten percentage points in order to increase investment incentives.

**Constraints.** Corruption and fraud remain major constraints to economic development through the private sector in Mali. The corrupt regime that was in power for twenty-three years encouraged attitudes conducive to fraud. But after three years of democratic rule and some serious efforts on the part of the Government to fight this scourge, significant improvements have been made. With the reorganization of the Customs Service, the hiring of 300 new agents and the use of special units to seize contraband goods from retailers, customs receipts increased 150 per cent during the first quarter of calendar 1994. Still, the new government's challenges remain in imposing regulations, collecting taxes, and fighting a culture where corruption was previously tolerated and encouraged many businesses to operate informally.

**SO 2. Increase incomes in areas of high productive potential (\$12,962,234: of which \$10,000,000 is for Economic Growth and \$2,962,234 is for Protecting the Environment) .**

Eighty percent of Malians live in the rural areas, where they are dependent on agricultural production for their meager incomes. While Mali is an arid country, its land and water resources could be used more efficiently and in a more sustainable manner. In this context, increased agricultural production is essential to increasing incomes, fighting poverty, and ensuring Mali produces sufficient food for its population. Through better management of human and natural resources in rural areas, USAID is helping to increase incomes, which is vital to building broad-based, sustainable and environmentally-sound economic growth in Mali.

**Activities.** The Mission's efforts are designed to reform grain and rice markets and to privatize rice mills. USAID funded agricultural research and extension activities, and assisted 24,000 farmers to use fertilizer in methods identified by this research; assisted in the promotion of livestock, fruit and vegetable exports. With USAID assistance to training, technology development and transfer, Mali broke into the European vegetable market in 1994. USAID provides support for policy reform and training to the animal export sector and assists rural women through support to private credit associations and village banks.

**Related Activities.** Through investing in people in the rural areas--encouraging adult literacy and numeracy, boosting primary school enrollment, promoting girls' schooling and providing training in family planning--USAID is increasing the capacity of Malians to work more productively and increase their earnings. The Mission also supports programs to reduce child and maternal mortality, problems that have a significant impact on the ability of families to meet their own needs.

Natural resource protection activities will help rural Malians use their resources in an environmentally sound manner to produce greater revenue. These activities include: participation in a regional natural resources and evaluation workshop, use of geographic information systems to monitor environmental impact until Landsat orbital satellite problems are corrected, and development of an environmental action plan and defining public awareness programs with the GRM.

**Indicators.** USAID indicators for increasing incomes in areas of high productive potential include: 1) increasing the value of agricultural exports from \$120 million in 1988 to \$740 million in 1996; and 2) abolishing export taxes, minimizing rent-seeking taxes, and simplifying procedures for livestock exports.

**Feasibility and Cost-effectiveness.** The agricultural sector in Mali provides a living for over 80% of the population and constitutes over 40% of the production of goods and services. This sector is vital to ensuring sustainable economic growth. Increasing agricultural income is a long-term process in Mali, given the country's fragile ecosystem and poorly developed human and institutional resources. USAID/Mali, understanding this fact, has invested resources for over a decade in agricultural research and extension, cereals marketing reform, and livestock development. As a result, Mali produces enough coarse grains to feed its population and export to neighboring countries, will soon export rice, and has increased its exports of livestock significantly. Cereal production in 1994 was 60% greater than the average production of the 1980s. As a result of the recent devaluation, USAID investments in agriculture are likely to pay off sooner than planned. The devaluation has made imported rice uncompetitive on the local market, thus providing opportunities for local producers to meet the market demand and perhaps to produce for export. The demand for Malian livestock and meat has increased significantly in neighboring countries. The incentive to invest in agricultural development will have the largest and most immediate returns of any of USAID's development activities.

**Progress in 1993-1994.** As result of USAID activities during the last decade, the value of coarse grain production, marketing and exports has increased, and livestock production and marketing are much more developed. Cereal production increased at a rate of 8.3% since the 1980s, well surpassing the 3% rate of population growth. A recent evaluation of the Farming Systems Research and Extension Project demonstrated many cases where USAID-sponsored agricultural research resulted in measurable increases in revenue for both men and women. In 1993, agricultural exports increased by 10% over

1992. Following the January 1994 devaluation, cotton producers were promised a price increase of 35% for their next harvest, and have consequently increased their planting area. Cotton exports are expected to increase significantly. With USAID assistance, exports of fruits and vegetables will also increase. Since the devaluation, exports of livestock have doubled, and local prices of livestock and meat have increased.

**Donor Coordination.** USAID participates with other donors in a jointly managed cereal market reform program that has liberalized the cereal market and established a system to respond quickly to emergency food needs. The Mission coordinates closely with other donors on committees dealing with livestock development and agricultural research. USAID ensures complementarity between the geographic foci of its integrated rural development projects and those of other donors. Donors also coordinate their support for NGOs operating in rural areas.

**Constraints.** While the profitability of agriculture has increased, the banking system does not provide adequate support to rural areas. The Government must do more to control customs officials, extension agents and security forces who demand illegal payments to allow the movement of farm commodities and livestock or the use of Government land. Appropriate policies concerning land tenure and the use of forestry resources have not yet been put in place. Insecurity in northern Mali has diminished the availability of seeds, fertilizer, pesticides and fuel, making it difficult for farmers in that area to raise crops. USAID is focusing on these problems as part of its strategy to increase production in areas of high productive potential.

**STABILIZING POPULATION GROWTH (\$4,299,372 of which \$3,499,372 DFA and \$800,000 DAF).**

**SO 3. Improve the delivery of health and educational services (\$15,568,717 of which \$11,269,345 is for Economic Growth and \$4,299,372 is for Stabilizing Population Growth).**

Mali's health and educational conditions are significant obstacles to economic growth and the ability of families to improve the quality of their lives. By promoting the development of sustainable health systems, which provide an integrated group of primary health services at the local level, USAID promotes economic growth through investment in people.

**Activities.** USAID is helping to develop decentralized systems for the delivery of integrated health and education services, relying particularly on the efforts of NGOs, local communities and the private sector. A major focus is health systems development, enabling the Government to meet local needs, assure regular supplies of contraceptives and essential medicines, and collect useful health data. The most important activity is family planning, with support for social marketing and community-based distribution of contraceptives. The Mission's AIDS prevention activities focus on educating and protecting people in the groups at highest risk for AIDS, as well as fighting sexually transmitted diseases. USAID also funds programs to fight malaria and guinea worm, two serious and debilitating diseases. NGOs work with villagers to reduce easily preventable childhood deaths through better nutrition and oral rehydration therapy.

**Related Activities.** USAID's training projects help develop the capacity of local communities to build democratic governance structures capable of collecting the revenues necessary for funding health and education activities. Both NGOs and Government agencies receive financial management training related to health and education activities.

USAID is helping to increase the capacity of the Ministry of Basic Education to provide greater access to schools and improve the quality of education. The quality of services provided to local communities has improved through teacher training, curriculum development, rehabilitation of schools, revision of school books, and a campaign to promote the enrollment of girls. The Mission has also helped increase the capacity of the Ministry to collect accurate and useful education data. USAID works closely with U.S. private voluntary organizations (PVOs), local NGOs, and local communities to promote the creation

of community-managed and financed schools recognized by the central Government. Students at these schools have been shown to perform 25% better on tests in core subject areas than their counterparts at Government schools.

Literacy training is sponsored by the Mission as part of its rural development projects, carried out by both Governmental agencies and NGOs.

Indicators. USAID's indicators for improving the delivery of health and educational services include: 1) increasing the national contraceptive prevalence rate from 1.3% in 1987 to 7.5% in 1996; and 2) increasing the number of primary school children completing sixth grade from 25,857 in 1989 to 45,000 in 1996.

Feasibility and Cost-effectiveness. The Malian Government has neither the management capacity nor the resources to respond to all of the country's needs in health and education. In both of these sectors, USAID is working closely with PVOs, NGOs, regional and local governments, and village associations. These efforts to decentralize decision-making, financing and basic social service management provide a framework for establishing sustainable systems. USAID is also building the capacity of the central Government to provide services required by local communities. By working at several levels of the systems, USAID will help Mali to improve its health and educational status dramatically, at levels that can be maintained with available resources. Reduced population growth will relieve the pressure on Mali's fragile resource base and limit the growth in the cost of Government social services.

Progress in 1993-1994. In the health sector, USAID is continuing to make progress in helping the Government and PVOs to establish sustainable health systems and contraceptive distribution networks. New health centers are being created and existing ones are better able to provide and integrate group health and family planning services. The contraceptive prevalence rate has increased from 1.3% in 1987 to 4.5% in 1994. Core groups of HIV-positive individuals are regularly using condoms. Ongoing activities have raised the percentage of Malians using contraceptives from 1.3% in 1987 to about 4.5% in 1994. More children are being vaccinated and are using oral rehydration therapy. In only two years, the incidence of guinea worm has dropped to the point where no new cases are expected to be reported next year.

In the field of basic education, USAID's Basic Education Expansion Project has continued to improve the capacity of the Government and local communities to provide primary education to an increasing number of boys and girls. USAID's dialogue contributed to fundamental changes in the approach to the delivery of educational services. New laws have been passed regulating the delivery of educational services, linking schools more closely with the specific educational needs of individual communities and developing decentralized structures. A new law now permits communities to establish and manage their own schools and considers them equal with Government-operated school. Efforts continue in training teachers, purchasing and distributing school books, improving girls' education, and establishing regional norms and procedures for monitoring and evaluation. Through funding the activities of PVOs, the project also trains parents-students associations in management skills, and it supported the construction and development of community schools. As a result of the efforts of USAID and other donors involved in basic education, enrollment has increased by 59% since 1989, from 311,000 students in 1989 to 528,000 students in 1994-95. The number of students completing the sixth grade has increased from 19,300 sixth grade students in 1989 to 82,600 (cumulative) by 1994-95.

Donor Coordination. In both the health and education sectors, USAID's activities are part of larger multi-donor projects. The relevant project committees meet regularly. USAID is the major donor in family planning, while other donors take the lead in ensuring the availability of essential drugs. In the area of basic education, USAID has focused on institutional capacity development, the community

development of schools, and quality education, while other donors have focused on classroom construction.

**Constraints.** There is a major budget constraint in public education in Mali. Beginning in January 1994, the secondary school student movement used violence to force the Government to remove recently imposed criteria on the allocation of scholarships. Rather than submit to the students, the Government closed all schools in mid-February. Primary schools were allowed to reopen in April. The Government successfully imposed its scholarship criteria during the 1994-95 school year and appears to have resolved its problems with the secondary school student movement, allowing primary and secondary schools to operate normally.

Increasing insecurity in northern Mali is another constraint which is disrupting government and PVO health, family planning, and education activities in that area. Some PVOs have withdrawn their staff. There are practically no four-wheel drive vehicles available to serve the needs of the communities in northern Mali.

#### **BUILDING DEMOCRACY (\$259,380).**

In addition to ongoing activities which strengthen PVOs, NGOs, community groups and Government institutions, USAID proposes to use an additional \$259,380 to help establish decentralized governing bodies to be selected by 1996. USAID will train elected leaders in essential management and governing skills. Malians at the local level (mayors and town councilors) are receiving training in civic education. The USAID mission has also supported democratic activities such as national conferences, referenda, as well as municipal, legislative and presidential elections.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$ 309,000).**

USAID is providing assistance under PL 480 Title II programs which include the distribution (through organizations such as World Vision) of food to at risk populations as well as the monitoring of food emergencies.

#### **Other Donor Resource Flows.**

In 1992, the United States provided 9.7% of all official donor assistance to Mali. Other major donors include France, Germany, the World Bank, the European Union, the Netherlands, Canada, and Switzerland.

**MALI**  
**FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian	Total
<b>USAID Strategic Objectives</b>						
1. Increase Private Sector Participation.	7,000,000	--	--	--	--	7,000,000
2. Increase Incomes in Areas of High Production.	10,000,000	--	2,962,234	--	--	12,962,234
3. Improve the Delivery of Health and Education Services.						
Dev. Fund for Africa	11,269,345	3,499,372	--	--	--	14,768,717
Dev. Assistance Fund	--	800,000	--	--	--	800,000
<b>Cross-cutting Issues:</b>						
Training in Democracy and Governance	--	--	--	259,380	--	259,380
P.L. 480, Title II	--	--	--	--	309,000	309,000
<b>TOTAL</b>	<b>28,269,345</b>	<b>4,299,372</b>	<b>2,962,234</b>	<b>259,380</b>	<b>309,000</b>	<b>38,099,331</b>

USAID Mission Director: Joel Schlesinger

## MOZAMBIQUE

<b>FY 1996 Development Fund for Africa Request:</b> .....	<b>\$38,374,737</b>
<b>FY 1996 Development Assistance Request:</b> .....	<b>\$450,000</b>
<b>FY 1996 P.L. 480 Title II Request:</b> .....	<b>\$5,870,000</b>
<b>FY 1996 P.L. 480 Title III Request:</b> .....	<b>\$10,700,000</b>

In October 1994, Mozambique's first multiparty, universal suffrage, national elections signaled the beginning of a new future for the Mozambican people. After 16 years of a devastating civil war and two years of a fitful transition to peace, Mozambique may now be ready to turn its attention to economic development within a more democratic political framework. In addition to the immediate benefits to Mozambique, the peaceful resolution of almost 30 years of war and conflict (counting the war for independence), a significant regional destabilizing factor, offers southern Africa an unprecedented opportunity for economic and social development. Nonetheless, daunting obstacles confront Mozambique's recovery from its conflict-ravaged economic, social and civil past. Mozambique is one of the poorest countries in the world and its stability depends on economic growth, particularly income growth at the household level, and successful maturation of its fledgling democracy. Since 1988, the Government of the Republic of Mozambique (GRM) has demonstrated a commitment to economic reform and political liberalization.

U.S. assistance has been instrumental in recent years in saving the lives and livelihood of many Mozambicans, particularly during the devastating regional drought in 1991/92. U.S. support was key in allowing a free and fair election, and will remain vital to the stability of the new democratically-elected government that assumed office in December 1994. With the conclusion of the election process and the end of United Nations peacekeeping operations, U.S. support will bolster Mozambique as its nascent democracy takes root, thus increasing the stability of the whole southern Africa region. It is strategically located on the Indian Ocean and bordering six countries in the region, including South Africa. Mozambique also has, and may again, play a key role in facilitating inter-regional transport, especially from the interior, landlocked countries, thus helping to reduce transport costs for these countries.

### **The Development Challenge.**

Mozambique's capacity and ability to realize the benefits of a market-based economy and improved governance are compromised by a number of deep-rooted constraints. These include: an exceptionally narrowly based economy constricted by the war to basically the capital city and the Beira corridor; largely destroyed infrastructure which denied the majority of Mozambicans access to markets and services; a resource-poor population, nearly half of whom were displaced internally or as refugees; a four-hundred year history of intensive and encompassing state intervention and control of the economy and political, social and civic life; absence of a tradition of citizen participation and assumption of civic responsibility; one of the world's weakest human resource capacity bases; and the highest under-five child mortality rate in the world.

Mozambique is successfully completing its transition from war to peace. Among the more significant impacts of the U.S. contribution to this effort are: 90% of the registered voters going to the polls; 90,000 former soldiers being demobilized; death from famine and drought being avoided and acute malnutrition rates being brought down significantly; 75% of the internally displaced and almost all of the 1.5 million refugees returning home; 1,200 kilometers of roads cleared of landmines; 2,000 kilometers of roads rehabilitated; and seeds and tools distributed to over 2.5 million beneficiaries. Besides transport of demobilized soldiers, USAID has supported reintegration of the ex-combatants into civilian life through an Information and Referral Service, to deal with the demobilized on a day-to-day basis and help them solve problems related to their demobilization. USAID is also supporting a Provincial Fund which makes available quick-disbursing financing for small projects to promote the



social and economic reintegration of the demobilized by supporting apprenticeships with local businesses, rehabilitating local infrastructure, and on-the-job training opportunities.

By FY 1996, USAID will have shifted its strategy and resources from emergency relief toward a longer-term development program. Central to this new strategy is recognition that people need to take some control and responsibility over their lives through increasing participation in the governance process, increasing their household income, and developing innovative, cost-effective, sustainable social service delivery systems. This strategy will complement other U.S. initiatives. Because of the depth and breadth of the problems, the strategy further focuses its interventions geographically and sub-sectorally.

#### **Strategic Objectives (SOs).**

USAID will pursue three strategic objectives in Mozambique. Several cross-cutting activities, including support to private voluntary organizations (PVOs) and training, will contribute to all three. Because of endemic droughts and the adverse conditions under which the returnees are attempting to resettle and begin a better future, USAID will also continue to maintain an emergency/relief response capability, particularly during the more vulnerable years of FY 1995 and FY 1996.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$42,243,221 of which \$31,293,221 DFA, \$250,000 DAF and \$10,700,000 P.L. 480 Title III).**

**SO 1. Increased rural household income in specific geographical areas and commodity groups (\$31,063,221 of which \$29,067,221 is for Encouraging Economic Growth, including P.L. 480 Title III of \$10,700,000, and \$1,996,000 is for Humanitarian Assistance using P.L. 480 Title II).**

In an economy that is operating far below the subsistence level, the need to increase household income is paramount, if sustainable reduction of poverty, enhanced food security, improvements in the basic standard of living, and maintained improvement in democracy and governance policies are the medium-term objectives. To achieve measurable increases in household income, this SO will address critical constraints in selected geographic areas and for commodities that can be profitably produced by private enterprises, as well as broader national-level policy constraints.

**Activities.** Activities will include addressing marketing access constraints, including destroyed market infrastructure, policy and regulatory obstacles, and weak capacity in the micro, small and medium-sized private enterprises. This will be complemented by more direct support to recovery, expansion and productivity improvements of household income sources. Because of Mozambique's large geographic size and extraordinary challenges, USAID is focusing its interventions on specific geographic areas and commodity groups. Geographic areas are being selected based upon need, productive potential, and potential synergy with other strategic objectives. Commodity groups are being selected for their importance in household income and potential comparative advantages.

**Related Activities.** Broad-based economic growth, good governance and democratic practices are inextricably linked. Efforts in promoting civil society and responsive government improve the opportunity for smallholders to increase income and for the private sector to expand its role and business activities. The synergies gained through the mutual support of these related activities provides added incentives for foreign investment, including from U.S. businesses. Improvements in the delivery and quality of child survival and corollary activities affect the productivity increases necessary for this strategic objective. The PL 480 Title III program has been a significant factor in providing incentives to market development and local production, while assuring that 90% of the destitute in Maputo and Beira had access to a stable, affordable dietary staple.

**Indicators.** Development of indicators for this strategy is scheduled for early 1995.

**Feasibility and Cost-effectiveness.** Given the low household income levels and lack of means to produce, returns to investments in infrastructure, market development and basic technology improvements are exceptionally high and rapid. In 1993, just with the cessation of war and the limited mine clearance and road rehabilitation, agriculture led a 19% growth in gross domestic product. USAID has conducted an emergency relief program as well as a significant development program over the past ten years. Since 1988, USAID's development program has been very successfully focused on market liberalization and recovery and private sector development. Activities have included a mix of policy reform, commodity import support, selected technical assistance, problem-focused research, and landmine clearance on and rehabilitation of roads and bridges critical to the return of the internally displaced and refugees and for restoration of producing and marketing networks. This strategic objective builds on the successes of prior USAID programs.

**Progress in 1993-1994.** During the FY 1993-1995 Transition Program and the ongoing core development program (from the FY 1990-1992 strategy), USAID continued modest efforts which laid the groundwork for this new strategic objective. The P.L. 480 Title III program continued to deepen and broaden private sector maize markets supplying Maputo, while at the same time ensuring basic food security for those in absolute poverty in Maputo. With complementary Office of Foreign Disaster Assistance funds, P.L. 480 Title II, and sustainable development resources; rural households in seven provinces were provided with the basic seeds, tools and technology to begin recovery from the 1992 drought and the devastation of the war. Over 2.5 million beneficiaries received seeds and tools. Within hours of completion of mine clearance, trucks and buses were moving goods and delivering services to areas that had been isolated for 6-15 years. The remaining price liberalization policy reforms under the Private Sector Support Program were completed. Restructuring of the petroleum industry, with a significant increase in the role of the private sector, led to subsequent stabilization of fuel supply for emergency relief, the peace process and market expansion. PVO activities shifted from relief to development, assisting agriculture production, extension, improved seeds, markets, and agriculturally-related microenterprises. The commodity import program increased investment as well as consumption.

**Donor Coordination.** The World Bank, the European Union, Sweden, the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Development Program (UNDP) have programs that contribute to this strategic objective. Under the Roads and Coastal Shipping Project, an \$800 million sector program led by the World Bank, the donors coordinate closely, ensuring that critical, priority infrastructure is rationally and cost effectively rehabilitated. The World Bank, UNDP, Sweden, FAO, the Netherlands, Germany, Norway, Switzerland, and Italy all have a number of small agriculture and/or rural development programs. USAID is the major donor in private sector-led, market-based agricultural and rural income development. Infrastructure and sites for interventions have been chosen in close consultation with the GRM, PVOs, and other donors as are criteria for economic impact on rural household incomes, market network rehabilitation/recovery, and potential economic growth. Donor coordination is very good.

**Constraints.** Endemic, recurrent droughts will continue to constrain the rate at which Mozambicans recover from the war. While activities under this strategic objective will provide some assistance, continued USAID relief activities are intended to complement this strategic objective, particularly for more seriously affected areas. Sporadic, unfocused civil unrest as development lags behind the expectations of demobilized soldiers and returned refugees is expected to occasionally arise, but is not expected to be a long-term constraint. As the human resource skill base in the private sector, non-governmental organizations, and government institutions is a constraint, training will be an integral part of all activities financed under this strategic objective, including a proportion of the Human Resource Development Assistance Project and African Training for Leadership and Skills Project that are directly attributed to this SO.

**SO 2. Increased use of child health and reproductive services in focus areas (\$22,074,875 of which \$13,176,875 is for Economic Growth, \$3,045,575 is for Stabilizing Population Growth, \$1,990,000 is for Building Democracy and \$3,874,000 is for Humanitarian Assistance using P.L. 480 Title II).**

Fifty percent of the deaths in Mozambique are children under the age of five, which according to the 1994 World Bank Development Report, is the world's highest under-five child mortality rate. Reports indicate an under-five child mortality rate of 270/1000 live births, an infant mortality rate between 140/1000 and 173/1000, and a maternal mortality rate of 260-300/100,000 in health facilities. Modern contraceptive use is less than 5%. Access to safe water is 30% (rural) and 40% (urban). Only 30% of people in rural areas have access to health facilities.

**Activities.** To improve child survival, the program will improve the quality and cost-effectiveness of appropriate health services. Specific attention will be given to improving access to, quality of, and management of child survival and family planning services and on increasing demand for such services. This will involve forging new partnerships between communities, the GRM, non-governmental organizations (NGOs) and private providers of health services. In addition, a small, targeted HIV/AIDS activity will be supported.

**Related Activities.** The PVO/NGO Support Project, the Rural Access Project, the Market Efficiency and Rural Income Program and Project, and the training projects all provide complementary and supplementary support for this strategic objective. The Humanitarian Assistance component of the strategy will carefully target areas of serious food insecurity.

**Indicators.** Development of indicators for this strategy is scheduled for early 1995.

**Feasibility and cost-effectiveness.** The need for child survival programs is greater than Mozambique will be able to meet with its own, and donor, resources for a long time. For measurable impact, USAID is concentrating in three provinces. The strategy builds on the existing Primary Health Care Support Project's and USAID's partner PVOs decentralization, planning, child survival, family planning, HIV/AIDS, safe water and sanitation, and policy reform interventions. Public sector provision of the whole range of child survival activities is neither feasible nor cost-effective. Central to the strategy, therefore, is the forging of GRM partnerships with PVOs and other NGOs and with private providers of health services. During project design, USAID will continue to lay the necessary foundations through the Primary Health Care Support Project and support to PVOs active in child survival. PVOs are currently delivering cost-effective health services, but need to forge better partnerships with communities, private providers of health services and the GRM to assure sustainability.

**Progress in 1993-1994.** USAID had implemented child survival activities through the Primary Health Care Support Project since FY 1991 and the PVO Support Project since FY 1990. Under the Demobilization and Reintegration Support Project, primary health care was provided in the Mozambican National Resistance (RENAMO) assembly areas for area residents as well as demobilizing soldiers. Successes in reducing malnutrition have already been mentioned. Increases in malnutrition rates were common in areas that received large numbers of refugees and internally displaced. PVO and GRM actions have largely been successful in bringing them back down. Over 1,500,000 people have benefitted from the essential drug program component of the Primary Health Care Project; over 400,000 from the safe water component. Under the PVO Support Project, in addition to the drop in acute malnutrition, over 53,000 children were immunized, over 5,000 latrines built and over 96,000 families (about 480,000 people) gained access to safe water. Under the Demobilization and Reintegration Support Project, 200,000 people were able, many for the first time in 10-15 years, to access health care through USAID-financed health services for the RENAMO assembly areas.

**Donor Coordination.** Donors involved in the health sector include the World Bank (\$120 million in new project funds scheduled for FY 1996), Switzerland, the United Nations International Children's Emergency Fund (UNICEF), Norway, Denmark, the World Health Organization (WHO), the Netherlands,

and Italy. The donor working group has been effective in coordinating the multiplicity of donor projects in the health sector. In child survival, UNICEF is the lead donor, assisting the GRM to develop its five-year Plan of Action for Children, the sector program for coordinating assistance. In family planning, there are a few small projects, but a lead donor has not been identified.

**Constraints.** Neither income growth nor increased participation in governance will happen in an environment in which people are more concerned for their survival, due to lack of food, poor health, and poor security. Given that between 60% and 80% of the rural health infrastructure was destroyed during the war, both the lack of facilities and trained personnel are major constraints. The strategy does not propose to construct facilities, although a modest amount will be available for minor rehabilitation. An integral, and major, part of the strategy deals with the training and capacity building of the whole gamut of health personnel in the GRM, private sector and PVO community, to improve quality and availability of services. Another constraint is the current expenditures gap for the health sector. The program will address this through policy reform and local currency budget support from the P.L. 480 Title III program. The lack of any real discretionary income (60%-80% of the rural population live in absolute poverty) is a constraint to private provision of health services and sustainability of PVO/community partnerships.

**BUILDING DEMOCRACY (\$2,256,641 of which \$2,056,641 DFA and \$200,000 DAF).**

**SO 3. Sustainable citizen participation (\$2,256,641).**

The primary constraint to development of democracy and improved governance in Mozambique is the lack of public participation in the governance process. The successful completion of the first universal suffrage multiparty national election in October 1994 was the first step toward a true democracy. While USAID played a major role in supporting that election (nearly one-third of foreign assistance pledged), the challenge now is to assist Mozambique beyond that important first step toward full democracy. The majority of Mozambican citizens have been isolated from government and from each other for 18 years. Sustainable democracy requires a government that is more responsive to citizen participation and a citizenry that is aware of opportunities for participation and understands its role and responsibilities in a democracy. In addition, mechanisms and opportunities for participation also have to be recognized and/or created.

**Activities.** The principal activities under this SO are support for GRM decentralization initiatives, such as the municipal elections scheduled for 1996, providing more focused technical assistance to the Ministry of State Administration, and strengthening voluntary associations (including independent media) for self-governance and citizen advocacy.

**Related Activities.** Sustainable growth of household incomes (and general economic growth) and improvements in child survival are dependent on a more participatory governance system that enables individuals and groups to take charge of their lives and influence decisions being made. Thus, in addition to the activities undertaken by the Democratic Initiatives II Project, activities under SO 1 and SO 2 directly and indirectly contribute toward achievement of this SO. Under SO 1, a critical activity will be the development of associations (for technology transfer, input supply, marketing power, capital for enterprise development, policy dialogue, etc.) and support for decentralization of government authority and increased transparency and accountability. Under the child survival program, USAID will provide support for decentralization and increased citizen participation (through community associations and NGOs, possibly business associations).

**Indicators.** Development of indicators for this strategy is scheduled for early 1995.

**Feasibility and Cost-effectiveness.** The October 1994 presidential and national assembly elections established a precedent for popular participation in the selection of national leaders and established the concept of alternatives to a single party for citizen representation. While it is premature to talk about

broader expectations for greater participation, the election results did show that the Mozambican electorate can and will make choices when given the opportunity. This strategy builds on the successful elements of the elections and upon Mozambican initiatives toward significant decentralization of authority to provincial and local government. Prior to the election it was clear that frequently, provincial and district officials felt a stronger sense of accountability to local residents, even though they were appointed, not elected, officials. This strategy supports activities to strengthen that sense of accountability and will assist local initiatives to more actively participate in local decision-making. The strategy will rely heavily on PVOs and NGOs for implementation. Support at the national level will be relatively modest, focusing on a few key policy matters and targeting support to the national assembly.

Progress in 1993-1994. During this period, USAID provided critical assistance to the successful elections, the GRM's thinking about the role of traditional authorities (and, consequently, to the role of local authorities), and decentralization. Because of the overwhelming importance of free and fair elections for the president and national assembly, the vast majority of resources intended for democratic initiatives were devoted to that process. The major impact was that the elections were free and fair, with 90% of the registered voters going to the polls and 80% of the estimated eligible voters being registered. This was remarkable, given significant constraints such as the state of the roads, no food and no transport.

Donor Coordination. Donor coordination is exceptionally good. Donors recognized early in the peace process that the elections would require extraordinary coordination. The success of the effort has left a strong legacy and expectations of continued coordination. UNDP, the European Union, Italy, United Kingdom, Denmark, Norway, Sweden, and the Netherlands were important in ensuring the success of the elections. The World Bank, Sweden, Norway, Germany, the European Union, Denmark, and Italy all have activities in decentralization and voluntary associations. The United Kingdom is providing assistance for members of the national assembly.

Constraints. As in all aspects of development in Mozambique, human resource capacity remains a serious constraint. The GRM is exceptionally thin, and quality at the provincial and district levels is erratic at best. As the GRM continues to decentralize, and recognition increases as to the implications for power bases, its political will can be expected to fluctuate frequently. Until local revenue policies, laws and regulations are promulgated, recurrent expenditures gaps will also constrain the rate and extent of decentralization. The exigencies of dealing with endemic drought, particularly one that is severe and widespread, may overwhelm the relatively weak and/or new local government initiatives and voluntary associations.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$5,870,000 using P.L. 480 Title II resources).**

While USAID shifts its strategy and resources toward economic development, both Mozambique's recent history of massive population movements and long history of localized and nation-wide droughts require that USAID maintain an emergency response capability. With 10%-20% of the population destitute and an additional 40% in absolute poverty in the near- and medium-term, assuring minimal food security is an essential part of the program. The interventions to address these problems, however, will vary over the strategy period, with increased effective demand through income growth and government-financed narrow safety nets being the goal. In FY 1996, a combination of P.L. 480 Title II PVO activities, and P.L. 480 Title III is required to prevent serious malnutrition and death and ensure basic food security for the 50% to 60% of Maputo's population that is destitute.

The P.L. 480 Title II program provides critical humanitarian relief to millions of people, while at the same time providing assistance to both basic household economic growth and child survival. Implementing agencies, such as PVOs, are encouraged to provide emergency/humanitarian relief in the most developmentally-sound way possible.

**Other Donor Resource Flows.**

The United States is among the largest donors in Mozambique. The other major donors include the European Union, Sweden, Portugal, Italy and the World Bank.

**MOZAMBIQUE  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objective</b>						
<b>1. Increase rural household income in specific geographical areas and commodities.</b>						
Dev. Fund for Africa	18,117,221	--	--	--	--	18,117,221
Dev. Assistance Fund	250,000	--	--	--	--	250,000
PL 480, Title II	--	--	--	--	1,996,000	1,996,000
PL 480, Title III	10,700,000	--	--	--	--	10,700,000
<b>2. Increased use of child health and reproductive services in focus areas.</b>						
	13,176,000	3,034,875	1,990,000	--	--	18,200,875
PL 480, Title II	--	--	--	--	3,874,000	3,874,000
<b>3. Sustainable citizen participation.</b>						
Dev. Fund for Africa	--	--	--	2,056,641	--	2,056,641
Dev. Assistance Fund	--	--	--	200,000	--	200,000
<b>Total</b>	<b>42,243,221</b>	<b>3,034,875</b>	<b>1,990,000</b>	<b>2,256,641</b>	<b>5,870,000</b>	<b>55,394,737</b>

USAID Mission Director: Roger D. Carlson

## NAMIBIA

**FY 1996 Development Fund for Africa Request: . . . . . \$9,434,000**  
**FY 1996 Development Assistance Fund Request: . . . . . \$500,000**

Namibia is a newly-emerging democracy engaged in a multiracial effort to remove vestiges of a century of German-colonial rule and South African apartheid, which resulted in vast socioeconomic disparities. USAID assistance focuses on education and training to address historical, race-based inequities and help Namibia provide opportunities for all its people in a peaceful and democratic environment. It is in the U.S. Government's interest that the Government of the Republic of Namibia (GRN) succeed in its efforts to maintain a viable democracy able to provide equal economic and social benefits to all of its 1.4 million people, most of whom have suffered under a century of German colonialism followed by decades under the Republic of South Africa's apartheid system. Namibia is in a strategic area of southern Africa and its capacity to make a peaceful transition from minority domination -- politically and economically -- to majority rule and empowerment improves the stability of the entire southern Africa region. The U.S. Government is supporting this smooth transition by providing resources to improve and increase access to basic and adult literacy education, skills development and the protection of its fragile natural resource base.

### **The Development Challenge.**

The distribution of income in Namibia is highly skewed. The minority 5% white population receives 70% of the Gross Domestic Product (GDP), enjoys incomes on a par with those found in developed countries, and has almost exclusive access to quality education and social services. By contrast, the lowest 55% of income recipients, overwhelmingly from the majority black population, are primarily rural and shares 3% of the GDP, with a per capita income of less than \$100 per year. Environmentally, Namibia has a fragile ecological base, scarce surface water and arid land, and suffers from drought. Since independence, the GRN has undertaken an ambitious development program to eliminate the extreme economic and social disparities between the two populations, allocating up to 27% of its annual budget to education and another 17% to health and social services, initiating major education reforms and starting adult literacy programs. Namibia will require moderate, well-placed assistance on a sustainable basis for the next ten years to enable it to meet its development challenges.

### **Strategic Objectives (SOs).**

USAID is pursuing two interrelated strategic objectives in Namibia which address increased participation by formerly disadvantaged Namibians in economic activity and democratic institutions encompassing all levels of civil society. A third strategic objective supports sustainable use of Namibia's scarce natural resources, particularly its wildlife.

### **ENCOURAGING ECONOMIC GROWTH (\$8,485,237 of which \$7,985,237 DFA and \$500,000 DAF).**

#### **SO 1. Increase participation of formerly disadvantaged Namibians in the economic, social and political development of Namibia through education and training (\$8,485,237).**

Education and human resources development in the formal, non-formal and private sector are recognized as primary vehicles for overcoming the legacy of apartheid among the formerly-disadvantaged Namibians. Lack of skills and professional qualifications together with illiteracy are the major causes of high unemployment. USAID focuses on increasing human capacity and improving access for all, with emphasis on those most adversely affected by apartheid.

**Activities.** In basic education, USAID supports the GRN in dismantling apartheid-based education and in moving toward a more equitable and accessible system capable of meeting the educational needs

of all Namibians. The Basic Education Support (BES) Project is rebuilding lower-primary education in Namibia, the system's foundation, by developing a new curriculum and training teachers in its use. Under this project, USAID is providing technical assistance, commodities and training to design a national lower primary curriculum (grades 1 to 4) and a Participating Agency Support Agreement (PASA) with Peace Corps (\$4.2 million). Funding of workshops, seminars, specially designed training manuals and short-term technical assistance under the Reaching Out with Education to Adults in Development (READ) Project is strengthening the capacity of local non-governmental organizations (NGOs) to deliver improved literacy education, marketable skills training and other non-formal education programs reaching up to 40,000 beneficiaries. Under READ, five GRN officials are enrolled in Masters degree programs in the United States in non-formal education. Degree-level training in the United States (Bachelor and Masters) under the African Training for Leadership and Advanced Skills (ATLAS) Program is funding critical skills e.g., disaster management, public health, education, natural resources management, public administration and finance, and democracy and governance. A Human Resources Development Program, scheduled to begin in FY 1995, will provide short-term training to increase the number of black Namibians capable of filling private-sector management positions.

**Indicators.** At the primary education level, impact will be measured by a reduction in repetition, failure and drop-out rates from 31% to an average of 17%; a 20% increase in the number of students achieving basic competency in reading, writing, and numeracy. Success in nonprimary education will be demonstrated by increased participation of girls beyond the primary level (grade 7), and an increase in the number of students motivated to pursue higher education beyond grade 10. Further indicators of an increase in opportunities for formerly disadvantaged Namibians will be an increase in private-sector employment opportunities for returning Namibians with degree-level training and management skills. Another measure is increased participation of this group in the economic, social and political development of Namibia. Returning graduates will fill critical skill positions in both the private and public sectors.

**Feasibility and Cost-effectiveness.** At the lower primary level, a combination of large numbers of over-aged learners, high rate of repetition and under-qualified teachers are believed to be the root causes of problems in the education system. One third of all Grade 1 students in Namibia are repeaters; 70% of the teachers at the lower primary school level have less than a high school education. Qualitative improvements through in-service training of the least qualified teachers will reduce primary school cycle time, without increasing the volume of resources required to sustain the education program. Education expenditure currently represents 10.3% of the gross national product. Quantitatively, a reduction in primary cycle time for Grades 1-4 by 50% in the target areas will translate into a minimum savings to the GRN of \$2.5 million per year and \$72.6 million by the year 2010 and reduce some of the worst disparities in the education system.

**Progress in FY 1993-1994.** USAID negotiated an agreement with the GRN to focus Ministry of Education and U.S. resources on the previously-neglected, lower-primary level, the foundation of the education system. Twenty Namibians are now enrolled in advanced degree training under the ATLAS program at various universities throughout the United States. A human resources development assessment, undertaken in May 1994, identified private sector companies and candidates for short-term management training. An action plan for implementation of this assessment is being developed in consultation with the GRN and Chamber of Commerce. Under the READ health component, USAID has expanded its assistance to include adult education pertaining to HIV/AIDS.

**Donor Coordination.** Major education donors are Sweden, Denmark, the United Kingdom and the United States. In FY 1994, at USAID's request, the Ministry of Education and Culture (MEC) convened a major meeting of donors involved in the education sector for the purpose of exchanging information with subsequent meetings held on specific topics (teacher training, curriculum development). The United Kingdom and the United States are major donors of degree level scholarships.



**Constraints.** There is a lack of trained teachers and educators to carry out the necessary basic education reforms in a timely manner. There is a need for strengthening the capacity of the newly created MEC to enable it to carry out its national goal of education for all by the year 2000. There is a dearth of critical skills among the formerly disadvantaged Namibians at all levels of the economy. There is only a small black middle class and very few black managers who possess the requisite skills for business ownership.

#### **PROTECTING THE ENVIRONMENT (\$5,000).**

**SO 2. Assist the GRN and its population to protect its fragile environment and endangered wildlife through working with communities and NGOs (\$5,000).**

Namibia supports a variety of wildlife species and domestic livestock as well as a population consisting mainly of subsistence farmers. There needs to be an enhanced awareness of sustainable alternatives to raising livestock and farming in traditional patterns. The country is faced with a growing population and competition for limited water and valuable land. Increased eco-tourism and wildlife "farming" could be a source of increased income for marginalized communities if they can gain the right to accrue benefits derived from consumptive and non-consumptive (e.g., tourist) use of wildlife. Namibia would benefit from increased income and the rest of the world would benefit from preservation of large range species such as elephants.

**Activities.** Under the Southern Africa Regional Program (SARP), USAID has received \$7.5 million of \$10.5 million for a five year Living in a Finite Environment (LIFE) project being implemented by the World Wildlife Fund (WWF). The project funds biodiversity and applied research, workshops, long and short-term technical assistance, evaluation and monitoring to improve the management and protection of the natural resource base of Namibia for purposes of sustainable social and economic development as well as protection of biodiversity. NGOs are being strengthened to assist local communities living in and around parks to better protect wildlife resources and legal assistance is being provided to change legislation to allow indigenous people to benefit from natural resources management and tourism.

**Related Activities.** In addition to community-based natural resources management, USAID is also funding environmental education activities.

**Indicators.** Communities will begin deriving economic benefits from ecotourism and from natural resource management activities. Communities will be empowered to manage and control their communal land in terms of usage. A national policy will be implemented allowing benefits to accrue to communal land dwellers.

**Feasibility and Cost-effectiveness.** Tourism currently provides 20% of GDP and there is potential for much more. To achieve Namibia's full potential from tourism, however, wildlife must be protected and communities living near wildlife must have incentives to manage wildlife resources effectively. The legal and regulatory framework will be established through the project to permit a system of natural resource accounting that calculates benefits from sustainable utilization of natural resources.

**Progress in FY 1993-1994.** Sub-grants strengthen four local NGOs. Economic and social assessments are being finalized for three major ecological regions. Passage by the legislature of policy on the utilization of game preserves is in progress. Formation of a community game guard program has occurred in two major nature reserves. Environmental education activities are underway. The first review of the proposed new legislation on the environment and income generation will be held in early 1995.

**Donor Coordination.** Major donors in the environment and natural resources sector are Norway, which is supporting the environmental legislation rewrite; Sweden, which is supporting a Desert Environmental Research Unit; Germany, which is providing assistance to the Ministry of Agriculture,

Water and Rural Development; Netherlands, which is providing technical assistance to Ministry of Environment and Tourism to support land use planning and Denmark, which is supporting planning, infrastructure and training for tourism.

**Constraints.** Land tenure issues and potential delays regarding the return of benefits to local communities from direct wildlife utilization may occur due to the fact that the GRN has not passed legislation allowing this practice. Legislation to permit the return of income to the communities in which it is generated and clarification on the rights and responsibilities of these communities regarding animals are urgently needed and are in the process of being developed.

#### **BUILDING DEMOCRACY (\$1,436,966).**

**SO 3. Expand participation of Namibians in human rights, democracy and governance activities (\$1,444,716 of which \$1,436,966 is for Building Democracy and \$7,750 is for Stabilizing Population Growth).**

Namibia's democratic institutions are new and weak, and it will take several years before a popular culture of democracy and advocacy can be rooted firmly. USAID plans to begin a bilateral democracy activity in mid-FY 1995 to assist the Namibian population to understand the full meaning of democracy, e.g., what it means to exercise one's rights and how to hold government accountable to the citizenry. Prompted by requests from the GRN for training of Parliamentarians, USAID funded a Democracy assessment in July 1994 and found little connection between the people and their representatives. An additional problem is the potential trend toward a one-party state. In the December 1994 election, the governing South West African Peoples Organization Party (SWAPO) received more than 70% of the vote, compared to 59% in 1989, but there was little involvement of grass roots organizations in the democratic process.

**Activities.** USAID will fund workshops, seminars, and other training in order to (a) enhance the transparency and accountability of Parliament and its communication with the citizenry by improving its capacity to conduct research and policy analyses and to strengthen linkages to constituents through systematic and effective communication; (b) build upon the capacity of existing political parties to become a loyal opposition and active participants in the democratic process in the period leading up to the 1999 national elections; and (c) strengthen the capacity of local NGOs to advocate for policies and programs on behalf of their members and beneficiaries.

**Indicators.** An informed population better able to express their views as exhibited by increased advocacy on key economic and development issues; an increase in the number of groups and communities represented at various fora; and increased contacts between communities and Parliament at all levels of society. Evidence of a strong civil society characterized by 25% increase in the number of organizations and/or groups and fuller participation of women.

**Feasibility and Cost-effectiveness.** Economic growth is directly linked to establishing a climate in which there is transparency and confidence in both the public and private sectors. Critical to having a democratically-oriented society is a political climate conducive to private sector growth, investment and attraction of foreign investment.

**Progress in FY 1993-1994.** In support of the December 1994 election, USAID grants provided voter education for communities and funded political party training for the seven participating political parties and equal access to TV and radio for all. Support is being provided to educate the public about women's rights as contained in the newly drafted legislation on the marital law, which would change the status of women from minors along with children and the insane to equal partners with equal rights. USAID undertook a Democracy and Governance Assessment in July 1994 to identify possible areas for a bilateral democracy activity. A FY 1994 workshop funded by a 116(e) grant brought

together representatives of public, private and NGO organizations resulted in a bill on the protection of children's rights which is now before parliament.

Donor Coordination. Sweden, Norway, Germany, the United Kingdom, and the United States have been in the forefront of democracy and human rights issues, organizing civic education and training on women's and children's legal rights and legislative reform activities. The Ford Foundation is providing annual grants in support of the Justice Training Center and to local private institutions. A newly formed group of donor organizations active in democracy and human rights issues meets quarterly to exchange information and coordinate donor support in these areas. Membership include representatives from the countries named above.

Constraints. Parliament lacks the capacity to conduct research, assess policy issues, and prepare legislative summaries necessary to formulate and enact legislation. There are insufficient linkages and means to facilitate communication between the people and members of parliament. There is a severe shortage of trained, experienced, and skilled personnel to become agents of change for democracy and a shortage of the kinds of information and reference material needed to strengthen and maintain a democracy. Although Namibia has been judged to have had two national free and fair elections, worldwide experience indicates that a ruling party without significant political opposition can become complacent, corrupt, or (even worse) dictatorial in practice.

#### **Other Donor Resource Flows.**

The five largest donors in 1993 -- Germany (\$27 million), Sweden (\$18 million), Japan (\$14 million), European Development Fund (\$12 million) and Norway (\$11 million) -- provided over 50% of assistance for Namibia. The United States provided \$9 million in 1993.

**NAMIBIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
<b>1. Increase participation of formerly disadvantaged Namibians.</b>					
Dev. Fund for Africa	7,985,237	--	--	--	7,985,237
Dev. Assistance Fund	500,000	--	--	--	500,000
<b>2. Assist GRN to protect its fragile environment &amp; wildlife.</b>	--	--	5,000	--	5,000
<b>3. Expand participation of Namibians in human rights, democracy, and governance activities.</b>	--	7,750	--	1,436,966	1,444,716
<b>Total</b>	<b>8,485,237</b>	<b>7,750</b>	<b>5,000</b>	<b>1,436,966</b>	<b>9,934,953</b>

USAID Representative: Edward J. Spriggs

## NIGER

**FY 1996 Development Fund for Africa: . . . . . \$27,315,464**  
**FY 1996 Development Assistance Fund: . . . . . \$1,000,000**

Niger made a successful transition to democratic government in 1993. The key supportive role played by the United States in this transition is widely acknowledged and appreciated by Nigeriens. Economic conditions remain grim despite progress in policy reform and the devaluation of the regional CFA (West African Franc) currency. USAID's major focus is to support Niger's movement from a centrist military state towards a broad-based, free-market economy built on a more participatory civil society. This evolution is essential for the success of Niger's democracy and for real economic growth. United States interests are served by stable, democratic governance that contributes to a stronger West African regional political and economic system. Economic development, more moderate population growth, and democratic governance will enhance productivity and food security, thus reducing the need for far greater expenditures in the event of natural disasters such as chronic droughts and possible future political instability.

### **The Development Challenge.**

Landlocked at the southern edge of the Sahara desert, bordered by Algeria and Libya to its north and Nigeria to its south, Niger is among the poorest countries in the world: its per capita Gross National Product (GNP) was estimated at about US \$300 in 1994 and the GNP has shown negative growth for several years. While it grew in 1994 due mainly to better rainfall, its growth is still lower than the population growth rate of 3.3% per year. Niger's mid-1995 population will total over 9 million, concentrated along its 900 mile border with Nigeria. Despite some advances in family planning, population growth is in its most accelerated phase. Social and economic production systems have not caught up. Natural replenishment of land resources no longer suffice to maintain a population-environment equilibrium, given widespread devastation of the natural resource base. Levels of illiteracy, especially among females, and rates of infant, child and maternal mortality are among the world's highest.

The emergence of democracy at the national level, recent adoption of more realistic currency exchange rates in the CFA zone, and several seasons of fairly good rainfall now present Nigeriens with unusual opportunities to reverse years of stagnation and promote the diffusion of social, economic and technological innovations favoring improved quality of life. The United States is encouraging and assisting major policy reforms in the areas of human rights, land reform, public health, and legal codes that enhance the rights for women and local control of agricultural resources.

### **Strategic Objectives (SOs).**

USAID's program in Niger supports three objectives. Progress and constraints to achievement of these objectives are closely inter-related, and the impact of activities are synergistic across objectives. Some activities cut across all three objectives including: (a) democratic governance initiatives; (b) mitigation of disasters and humanitarian assistance; and (c) training.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$16,889,165 of which \$16,089,165 DFA and \$800,000 DAF).**

**SO 1. Increased use of family planning and other maternal and child survival services (\$10,062,145 of which \$9,262,145 DFA and \$800,000 DAF including \$5,591,000 for Economic Growth, \$4,216,145 for Stabilizing Population Growth, and \$255,000 for Building Democracy).**

Niger has some of the world's worst health indicators. It is one of the few countries whose mortality decline seems to have plateaued about 15 years ago. Infant and child mortality rates are the highest

ever recorded by International Demographic and Health Surveys; maternal mortality also is believed to be the highest. One-third of children die before reaching the age of five, and an unusually high proportion of deaths occur after infancy. At the same time, Niger has a 3.3% annual population growth rate which is unsustainable in a country with a fragile resource base. While the actual causes of death are mainly respiratory infections, malaria and diarrhea, the main underlying factors are high fertility, poor nutrition, poor sanitation and limited access to medical treatment, which relate to household income and community organization. Improved child survival is a USAID objective in its own right and also an essential measure to achieve reduced fertility.

**Activities.** USAID is following an integrated approach in this area, working with the Government of Niger (GON) to effect policy changes favoring adoption and accessibility of Maternal Child Health (MCH) and family planning services. It's current program works to facilitate adoption by the GON of health and population sector reforms, in order to facilitate an increase in the amount and effectiveness of resources available to this sector. USAID provides non-project assistance (NPA) budget support and technical assistance to the GON to facilitate cost recovery and cost containment, resource management, and national health and population planning activities. It is also helping improve GON capacity to deliver family planning services, conducting a pilot health services quality assurance project, procuring contraceptives, providing technical assistance in population policy development and demographic data collection and utilization, assisting in social marketing of condoms and developing and integrating a reproductive health curriculum into medical and nursing training. Largely as a result of this project, an integrated infrastructure for the delivery of family planning (FP) services has been established in many health facilities. Support also is given to U.S. Private Voluntary Agencies (PVOs) for selected area programs, and to the United Nations Children's Foundation (UNICEF) for the national immunization program.

**Related Activities.** Growth of income is very important to help reduce both mortality and fertility in Niger. Because of this, USAID is giving increased emphasis to rural primary health care in selected regions of Niger. Local participation in planning, competing for assistance resources, and assuming responsibilities depends upon and enhances better local governance. USAID is providing important support in these areas.

**Indicators.** Proposed indicators for measuring progress toward achieving this objective are (1) an increase in immunization against measles from 20.4% of Niger's children in 1992 to 35% in 1997 and 55% in 1999. Other targets now being developed include improvements in the quality of age-specific mortality rates; and increased availability of and use of immunization services; greater proximity of rural populations to services; and more people served through locally organized centers; and (2) an increase in the modern method contraceptive rate from 2.3% in 1992 to 5% in 1997 and 7% in 1999.

**Feasibility and Cost-effectiveness.** Niger's formal policy environment has improved in recent years and now favors USAID's new emphasis on local-level, quality service delivery in limited geographic areas. The GON now fully supports and is implementing the administrative decentralization that will encourage this. Data collection systems are in place to monitor progress. USAID's decision to concentrate resources in limited areas results from recognition that funding for vertical programs has been too concentrated at the national level to make real impact. Though progress in family planning has been slow, many policy constraints and attitudinal barriers are being slowly overcome and progress now seems promising for service delivery, particularly in the urban areas.

**Progress in 1993-1994.** The GON developed an essential drug policy, and made major progress in decentralizing management, cost recovery and local budgetary control in the three national hospitals. Cost recovery pilot tests for non-hospital services were completed and these approaches adopted for extension to the rest of the country. Personnel, management and accounting systems, and a national health information system were completed in the Ministry of Public Health (MOPH). Use of an essential, generic drugs list in all Public Health facilities was agreed upon. USAID assisted in updating the National Health Development Plan and helped establish a national program for social

marketing/commercial retail sales of contraceptives, and further expanded family planning coverage in existing MOPH facilities. The use of contraception continued to increase.

**Donor Coordination.** A large number of donors support health and population activities. USAID plays a major role among the numerous other donors active in the health sector, particularly in the policy reform arena, and is working with UNICEF in the immunization program. USAID plays a leading role in Family Planning, and other donors including the United Nations Fund for Population Activities (UNFPA), France, World Bank, Germany, and UNICEF, also provide some support. While there is no formal donor coordination structure, relationships between donors is good and there is essentially no duplication of effort.

**Constraints.** Niger's extraordinarily poor literacy, especially among females, severely constrains the rate at which innovations in preventive health care and family planning can be diffused. The GON has placed greater emphasis on education, but is limited by budgetary constraints and the high dispersion of the rural population. The general conservatism of the society, which is just getting used to the idea of modern family planning methods, and elements of the Islamic religion also constrain family planning efforts, although progress is being made. Nigerien law strictly enforces restrictions on voluntary surgical contraception and there are virtually no surgeons with training in these methods. Social customs, widely observed, encourage or permit the marriage of females at very early ages.

**SO 2. More decentralized financial services and an improved environment for productivity (\$5,479,165 of which \$5,224,165 DFA is for Economic Growth, \$200,000 DAF is for Protecting the Environment and \$55,000 DFA is for Building Democracy).**

Despite the overall economic stagnation in Niger, the informal sector is flourishing, an indication of the potential for economic expansion. The CFA devaluation has been a stimulus to small industries, particularly in the border regions. Despite the continued existence of governmental constraints and lack of sufficient capital, there is significant potential for expansion. Some of USAID's most successful activities have been in this area.

**Activities.** USAID work in the economic domain has been focused on two main areas: (1) promoting policy and institutional reforms concerning administrative and regulatory barriers, informal taxation and informational impediments to private enterprise development and improved export of agro-pastoral products. With USAID support, the GON has implemented measures to improve the policy environment for regional trade, including the elimination of agro-pastoral export taxes, the rescinding of quotas on livestock exports, acceleration of customs clearances for perishables and decentralization of all agro-pastoral export licensing; and (2) supporting the development of credit unions and rural co-operatives throughout Niger to assist farmers and small entrepreneurs to purchase needed inputs and develop micro-enterprises. USAID also is assisting Niger in developing a policy research network capable of carrying out and diffusing policy studies.

**Related Activities.** Activities to be carried out under this SO also help protect the environment. As the Nigeriens develop a greater stake in their resources they can see the results of good environmental management practices. The emphasis on local organizations is an important element in the Mission's efforts to promote democratization at the local level. The savings and credit institutions can be utilized by the Nigeriens to fund health/population and natural resources management (NRM) activities.

**Indicators.** The indicators, currently being developed by USAID, will relate to the number of credit institutions providing small loans, including participation by gender, use of loans, number of loans, repayment rate, and number of microenterprises created.

**Feasibility and Cost-effectiveness.** Past USAID experience in the provision of credit and other inputs, particularly through cooperatives, has shown that a great deal can be accomplished at relatively low

cost. New legislation is facilitating the formation and operation of cooperatives. The CFA devaluation has improved Niger's terms of trade, especially with Nigeria, and has opened new opportunities for marketing of agricultural products.

Progress in 1993-1994. An activity currently being implemented by the World Council of Credit Unions (WOCCU) is developing a Nigerien credit union program that is promoting savings and extending credit to members, using local rather than external resources. There currently are almost 40 credit unions, with almost 5,000 members (30% women) registered with the project. Another activity implemented by the U.S. PVO, Cooperative for American Relief Everywhere (CARE), works to encourage private sector initiatives and develop the economy of Niger's Maradi province. A rural bank and a technical school have been established to provide loans to small enterprises, income-generating groups and individuals for working capital and equipment purchases and technical training to individuals. The project is working toward the privatization of institutions established under the project, to enable them to function after the 1996 project completion. Far more new businesses (about 20,000) and new jobs (120,000) were created than planned, \$3,000,000 worth of loans disbursed (nine times the number planned) and almost 850 people technically trained. A program implemented by the PVO National Cooperative Business Association/Cooperative League of the USA (CBA/CLUSA), is expanding the private sector role in rural areas through the development of cooperatives engaged in productive economic activities. Under this project, about 114 cooperatives and 69 women's groups have been organized, over 9,000 people have received literacy and/or numeracy training, small village stores and pharmacies have been established, and a substantial amount of funds has been disbursed as loans to cooperatives for economic activities. In the policy area, there has been a reduction in illicit payments to state agents by truckers transporting agricultural crops to market.

Donor Coordination. The French and the World Bank/International Monetary Fund are the leading donors in economic reform; the French and Germans are becoming much more involved and are working with U.S. intermediaries in the credit sector. There is consultation among donors to reduce duplication.

Constraints. Transportation bottlenecks, exacerbated by "unofficial taxation", a practice USAID is working with the GON to reduce, are common. The growth of the informal vis-a-vis the formal sector of the economy reduces market access for certain products. While severe risk aversion by banks limits credit, the success of the USAID-supported credit unions provides ground for optimism.

## **PROTECTING THE ENVIRONMENT (\$6,172,234).**

**SO 3. Increased use of improved natural resource management (NRM) practices (\$8,345,154), of which \$5,587,234 is for Protecting the Environment; \$2,530,000 is for Economic Growth and \$227,920 is for Building Democracy).**

In Sahelian countries such as Niger, long-term economic growth is dependent on increasing agricultural productivity in environmentally sustainable ways. This is especially difficult when traditional, communal land-use patterns discourage farmers and foresters from investing in the land and using it wisely. USAID supports reforms which are leading to more secure land ownership and management which in turn is leading to greater investment in agriculture production and agro-based micro-enterprise. Agricultural yields in some areas in which USAID has been working have increased two-to-three fold.

Activities. The main USAID vehicle for assisting rural Nigeriens to improve agricultural productivity with better natural resource practices is the Agricultural Sector Development Grant (ASDG-II). This project funds technical assistance, training, and evaluation, and also provides budget support to GON institutions and private entities dealing with NRM, contingent upon the GON undertaking specific actions related to land tenure, resource use, and the roles of specific private and public institutions involved in rural development. The GON has adopted a Rural Code establishing a policy framework for land tenure and has liberalized regulations affecting NGOs. Another activity, implemented by the



U.S. PVO Africare in Niger's Gouré region, integrates environmental conservation and sustainable agricultural development under a comprehensive village-level NRM plan. Environmental aspects include protection of dry-season oases from animals and sand encroachment through the planting of natural barriers and establishment of pastoral wells, stabilizing shifting sand dunes and stabilizing cultivated soil through use of agro-forestry techniques. Increased emphasis is given to collaboration and participation of the local populace in the development and implementation of this program.

**Related Activities.** The reversal of environmental degradation and protection of Niger's natural resources, which results in higher productivity, is crucial to Niger's development. The emphasis on local control of natural resources encourages investments in and a more effective use of agricultural lands. It also strengthens individuals and local communities, helping to build grassroots democracy.

**Indicators.** Proposed indicators are: (1) adoption of improved NRM practices by land area and number of women and men; and (2) specific improvements in the legal and regulatory policy framework. Other indicators will measure increased access to NRM information and strengthened national and community capacity.

**Feasibility and Cost-effectiveness.** The GON adoption of Rural Code legislation, primarily as a result of USAID effort, is facilitating the assumption by local communities of control of their natural resources. The adoption of better practices increases local producer tenure security, thereby encouraging the adoption of better NRM practices as well as investment in inputs. This in turn will enable producers to diversify on-farm productive activities and increase their disposable income.

**Progress in 1993-1994.** The GON adoption of improvements in the Rural Code, decentralization, and the change in the role of foresters provides for greater local control of natural resources. These reforms enabled the release of additional funds from the Agriculture Sector Development Grant, a portion of which are being used to establish a counterpart fund to be used by local non-governmental organizations to assist in the implementation of Niger's NRM strategy. Nigeriens are being training in implementation of the Rural Code and adoption of better NRM practices. There has been a significant increase in village organization of NRM activities and forest land under community management, both of which are leading to greater agricultural productivity.

**Donor Coordination.** The U.S. plays a leadership role in this sector, especially in working with the GON on policy changes. The World Bank, Belgians, Dutch, French and several other donors also are active in NRM. There is increasing coordination to prevent duplication of efforts.

**Constraints.** In addition to the constraints imposed by a bureaucracy that is still, though increasingly less, centralized, NRM efforts are constrained both by the fragility of the environment and the poverty and low education levels of the population which can make them more reluctant to adopt practices whose impact may only be felt in the longer term.

#### **Cross-Cutting Issues.**

**Disaster Preparedness and Humanitarian Assistance (\$3,245,000, of which \$2,675,000 is for Economic Growth, \$270,000 is for Protecting the Environment and \$300,000 is for Building Democracy).**

USAID's Disaster Preparedness and Mitigation is a cross-cutting activity aimed at minimizing the negative impact of disasters on Nigerien economic development by strengthening Nigerien capabilities to assess and effectively respond to disasters, especially food-related emergencies. The main activities include the development of a vertically integrated early warning and response system, an increasing shift from relief and free food distribution to mitigation activities encouraging self-help and community participation, improved donor coordination, and setting up an Emergency Fund (NPA counterpart funds) to be utilized by the GON for short-term emergency needs, including local food purchase and transport.

Two pilot mitigation projects as well as studies on the institutional and legal aspects of early warning and response have been completed. The Germans, Italians and Europeans are quite active in this arena, though the U.S. may be the largest single donor.

In addition, USAID has management responsibility for the Sahel Water Data Network and Management (AGRHYMET), a multi-donor regional activity, which records, interprets, and disseminates weather, climatic and hydrological information on the Sahel. Emphasis is being placed on increased participation, leadership and institutional strengthening. The information generated under this project helps in the forecasting of disasters as well as assists in better land use planning in Niger and the other countries of the Sahel.

#### **BUILDING DEMOCRACY (\$1,037,920).**

Building democracy has been an important part of USAID's program. Over the past two years, it accelerated its assistance for Nigerien activities promoting democratic governance. Activities in 1994 included support for adoption and promulgation of the Rural Code through technical assistance and cash disbursements as well as small projects assisting the improvement of the administration of law, multi-media campaigns on democratic principles, and training for journalists, human rights organizations and women's groups. The Mission funded and helped organize the printing and distribution of Niger's compendium of laws and court decrees, and supported a rapidly expanding network of non-governmental, para-legal village workers to further the decentralization and improve the quality of local administration of law. These efforts played an important part in the remarkable growth of Nigerien private voluntary organizations, which now extend beyond the capital city.

USAID's three SOs all include a democratic governance component and each are geared toward achievement of results that are essentially and explicitly related to Building Democracy. For example, \$255,000 of funding for SO 1 (family planning/MCH) is to be programmed for activities related to decentralization of GON administration of preventive health services, and for the mobilization of local associations for FP/MCH activities. Under SO 2, (financial services/production environment) \$55,000 will go directly towards efforts to increase access to and use of local, independent savings and credit associations. These groups are the very building blocks of practical, new democratic experience in Niger. In addition, \$227,920 under SO 3 (NRM), will be dedicated directly to local control of natural resources. And \$300,000 will be used for Disaster Preparedness and Humanitarian Assistance to support grassroots activities in this area. Finally, \$200,000 will go directly to a USAID activity that will add democracy and governance work in geographical areas where USAID activities are underway. It will assure that work already begun with small grants over the past three years under the Democracy and Human Rights Fund are functioning well, will enhance the activities undertaken under the three SOs, and will permit USAID to work directly with local municipalities to help mobilize financial resources of local government.

#### **HUMAN RESOURCES DEVELOPMENT (\$984,000).**

The development of human resources is an important element of USAID/Niger's program and cuts across all the SOs, but is predominantly for economic growth. Training, both long-term academic and shorter technical training in the U.S. or local training, is part of every project. Two new, innovative activities are a long distance learning project, particularly appropriate in a country of great distances and limited educational facilities; and a program, to be implemented by the Mississippi Consortium for International Development, to support female nongovernmental organizations, particularly in micro-enterprise development.

**Other Donor Resource Flows.**

In FY 1993, the United States was the fifth largest donor to Niger, providing 7.5% of all donor contributions. Other major donors included France, Germany, Japan and the European Development Fund.

**NIGER  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Totals
<b>USAID</b>					
<b>Strategic Objectives</b>					
1. Increased use of family planning and other maternal and child survival services.					
Dev. Fund for Africa	5,591,000	3,416,145	--	255,000	9,262,145
Dev. Assistance Fund	--	800,000	--	--	800,000
2. More decentralized financial services and improved environment for production.					
Dev. Fund for Africa	5,224,165	--	--	55,000	5,279,165
Dev. Assistance Fund	--	--	200,000	--	200,000
3. Increased use of improved natural resources management practices.	2,530,000	--	5,587,234	227,920	8,345,154
<b>Cross-cutting Issues:</b>					
Democratic/Governance	--	--	--	200,000	200,000
Disaster Preparedness and Humanitarian Assistance	2,675,000	--	270,000	300,000	3,245,000
Human Resources Dev.	869,000	--	115,000	--	984,000
<b>TOTAL</b>	<b>18,889,165</b>	<b>4,216,145</b>	<b>5,172,234</b>	<b>1,037,920</b>	<b>29,315,464</b>

USAID Mission Director: James M. Anderson

## NIGERIA

**FY 1996 Development Fund for Africa Request: . . . . . \$15,551,724**  
**FY 1996 Development Assistance Fund Request: . . . . . \$11,275,000**

Nigeria, the most populous country in sub-Saharan Africa, is struggling with the task of nation building in the face of increasingly harsh economic realities. The lack of a democratically elected government has led to political instability, civil unrest and labor strikes, and reduced aid flows which have damaged its fragile economy. Nigeria is the most strategically important country in the region which influences and, in many respects, determines the economic reality of its African neighbors. It is a major regional military and political power with an established record of participation in peacekeeping efforts. Despite the fact that it is the third largest supplier of oil to the U. S. market, a decade of economic decline has reduced it to the 13th poorest country in the world. With its large population, Nigeria is a potentially huge market for U.S. exports if it can achieve greater economic growth and political stability.

USAID's assistance to Nigeria is humanitarian, limited to the non-government since 1994 and an important component of the U. S. strategy of crisis prevention. It is in the U. S. interest to maintain an active presence to slow the economic and political deterioration in this strategic country, and prevent a major regional catastrophe which could cut off Nigerian supplies of oil to the U.S., curtail Nigerian peace-keeping efforts in several countries and tax the resources of all donors with the magnitude of the required humanitarian relief effort. The USAID program supports U.S. interests by supporting efforts to stabilize a rate of population growth that directly threatens the regional environment, contributes to emigration and undermines Nigeria's potential for economic and social progress. USAID efforts are linked to enhancing the role and participation of women and stimulating the private sector to promote the growth of free markets and ideas -- a necessary foundation for democratic governance and sustainable economic development.

### **The Development Challenge.**

As Nigeria continues its protracted transition from military to civilian rule, labor and civil unrest plaguing the country exacerbate its development problems. Elections for local and state leaders and the national assembly were successfully undertaken but the transition came to a halt with the annulment of the presidential elections held on June 12, 1993. All elected bodies were subsequently dissolved when the military again assumed power in November 1993. The military government has convened a national constitutional convention which is still ongoing but has yet to show positive results. The political standoff beset by demonstrations and strikes has taken a deep toll on primary health care and the nation's economy which is faltering. Inflation is currently estimated at above 400% annually while Gross Domestic Product (GDP) per capita has plunged dramatically from \$1000 in 1980 to less than \$300 in 1994.

The country's multi-ethnic population is estimated at close to 100 million with approximately one-half the population under the age of 15 years. Families are large in both rural and urban areas with 52.7% of households larger than 5 persons and 15.2% larger than nine persons. Rapid population growth and internal migration are fueling the development of large urban slums with the attendant problems of urban overcrowding including a profoundly negative impact on the environment. Nearly one in every five children will die before reaching age five and the maternal mortality rate is among the highest in the world. In addition to vaccine preventable diseases, respiratory infections and diarrheal illnesses, Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS), Malaria, Yellow Fever, River Blindness and many other serious tropical diseases are widely endemic in the country.

Nigeria's comprehensive health policy pronouncements have not been backed with budgetary resources, effective administrative and implementation arrangements nor retention of necessary qualified personnel. There is a growing consensus that the public sector health system is not delivering services at the community level and is broken for the foreseeable future. Confronted with the collapse

of even the most elemental public services, Nigeria's poorest citizens are recognizing and supporting the non-governmental organization (NGO) sector as an alternative source for their health care services. In addition, U.S. policy sanctions against Nigeria as a result of the April 1994 decertification for narcotics transiting restrict U.S. assistance to the private NGO sector.

USAID programs seek to address issues such as the explosive rate of population growth, declining health standards, and social factors that limit the ability of women to contribute to development. USAID assistance is helping to create the foundation for integrated service delivery programs to address health and population needs. An effective family planning program has recently begun to demonstrate impressive results despite the difficult political and economic conditions within the country. Maintaining this positive humanitarian effort is essential in promoting stability and improving prospects for development.

#### **Strategic Objectives (SOs).**

USAID is pursuing the following two strategic objectives in Nigeria. In addition, the program consists of an HIV/AIDS activity which directly supports these strategic objectives. All USAID programs are directed to integrating maternal and child health interventions with those of family planning and HIV/AIDS, and addressing issues related to women's health care decision making and the needs of special populations such as the urban poor and adolescents.

**STABILIZING POPULATION GROWTH (\$14,927,431 of which \$9,252,431 DFA and \$5,675,000 DAF).**

#### **SO 1. Increased Voluntary Use of Family Planning (\$14,927,413).**

High fertility has diminished the country's economic and social gains, and overwhelmed health and educational systems as well as general infrastructure. It is one of the single most important constraints to Nigerian development. Given its current growth rate of 3.1%, the population is estimated to increase to about 116.5 million by the year 2000, and to double by the year 2017. Nigeria has reduced its total fertility rate (TFR) from 7.5 births per women in 1982, to 6.0 (1990), but far more is required.

Activities. The objective of USAID's family planning program is to increase the use of voluntary family planning by building demand for modern contraceptive methods and improving physical and financial access to quality clinical services. USAID is concentrating activities in the private sector, working with both not-for-profit and commercial organizations. Effective service delivery programs integrating family planning with maternal and child health care are being developed with participation of successful non-governmental organizations such as the Planned Parenthood Federation of Nigeria, the Association for Reproductive and Family Health, and state chapters of the National Council of Women's Societies.

Related Activities. **Women's health care decision making:** In Nigeria, as in many traditional societies, the burden of providing for the health and well-being of the family is disproportionately borne by women. It is the women of Nigeria who are responsible for the care of children. Yet paradoxically, this segment of the population is largely disenfranchised and deprived of opportunities for political, social and economic participation. USAID places strong emphasis on building programs which identify and remove constraints to women's health care and reproductive health decision making -- an important entry point to the larger issue of women's empowerment.

**Institutional development and sustainability of private health systems:** These activities assist Nigerian private organizations to improve their management, cost recovery, reporting and strategic planning to enhance capabilities and long term capacities independent of USAID resources.

Indicators. The following indicators measure achievement of USAID's family planning objective: (1) Increased contraceptive prevalence of modern methods of contraception from 3.8% of all women of

reproductive age in 1990 to 16% in 2000; and (2) increased volume of imported contraceptives from 17 million condoms in 1990 to 45 million in 2000; from 2 million cycles of pills in 1990 to 10 million in 2000; and from 85,000 Intrauterine Devices (IUDs) in 1990 to 650,000. These indicators may be adjusted as USAID moves to an all private sector program. Indicators to monitor progress in private sector participation and growth; integration of health care delivery; enhancement of women's health care decision making; and NGO strengthening and sustainability are being developed.

**Feasibility and Cost-effectiveness.** Family planning is generally regarded as the most cost-effective intervention in promoting the health of women and children. USAID's investments over the past seven years have successfully popularized the acceptance of family planning in Nigeria. USAID's private sector program enhances feasibility by effectively insulating services from political shifts and building on the substantial entrepreneurial capabilities of local organizations. Through the social marketing program, one couple year of protection (CYP) is currently estimated to cost \$4, including contraceptive cost. Private sector contraceptive sales have grown from 14,752 CYP in 1988 to an estimated 540,000 in 1993, an increase of more than 3,560 percent. Implementing the program through viable non-governmental organizations vastly increases the potential for long term sustainability.

**Progress in 1993-1994.** Despite the political and economic crises that have plagued Nigerian society in recent years, surveys show that demand for contraception, and use of, family planning services is rapidly increasing. Awareness of family planning increased from 38% in 1990 to 76% at the end of 1993. By the end of 1993, 8.2% of all women of reproductive age used a modern method of contraception, up from 3.5% in 1990. By the end of 1994, 2,384 providers were trained in clinical services; 1,400 market-based vendors were trained to provide family planning methods; and 3,400 community-based distribution agents trained to offer family planning methods.

**Donor Coordination.** Donor support has been ongoing with the United Nations Development Program (UNDP), the Overseas Development Agency (ODA), the United Nations Fund for Population Activities (UNFPA) and the World Bank. USAID has served as the catalyst in extending coverage through the private sector and has provided key technical assistance inputs to ODA for the development of proposals to enhance commodity flows as well as staff training for UNFPA.

**Constraints.** USAID's initiatives have been supported by the Government of Nigeria but, a desire for more "control" may negatively influence the NGO environment. Although recent years have seen dramatic increases in private sector commodity sales, the market has been constrained by economic hardships reducing the disposable income available for contraceptive purchases and access to facilities. Increasing public transport costs reduce the frequency of the rural population traveling to towns, even to markets in nearby towns. The lack of stable government is a constant concern. Cultural and religious attitudes in Nigeria are being influenced in the North by anti-western propaganda and simultaneously by anti-family planning propaganda in the South.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$11,777,013 of which \$4,777,013 DFA and \$5,600,000 DAF).**

**SO 2. Improved Maternal and Child Health Practices (\$10,377,013).**

Better health, including children's health, is a desirable end in itself. It also imparts economic benefits. Better health will not, of itself, induce economic growth, but does condition the rate and level of a nation's economic performance. Historically, as levels of economic development and growth vary among countries, so do key indicators of their peoples' health status.

Tragically, many of Nigeria's children have yet to benefit from the promise of improved health. Nearly one out of every 10 Nigerian infants is reported to die before its first birthday; mortality for children less than five years of age is 192 deaths per 1000; and maternal mortality is 15 deaths per 1000 births. High rates of mortality for Nigerian infants and children are a consequence of many factors,

some preventable by immunization, others by health education and improved health care. Support for alternative, private sector integrated primary health care is key to the USAID agenda.

**Activities.** In 1994, efforts focused on establishing educational programs within not-for-profit organizations with existing health care delivery structures or potential. These efforts address immunization, sick child case management, health worker/patient communication, and patient education. USAID is also working with not-for-profit organizations to strengthen community outreach, increase immunization coverage, education, and training of traditional as well as clinical health providers. Private sector health systems are being strengthened by enhancing management capability to utilize data for planning and management.

**Indicators.** The following indicators will measure achievement under this objective: (1) improved immunization coverage will reach 80% coverage among children under one year by 2000; and (2) Eighty percent of children under five seen at health facilities with diarrhea, fever (malaria), and acute respiratory infections will receive care meeting modern accepted standards of clinical assessment, treatment and counseling by 2000. Additional indicators to monitor progress in private sector participation, integration of health care delivery and HIV/AIDS prevention with family planning; greater women's health care decision making; and NGO strengthening and sustainability will be added.

**Feasibility and Cost-effectiveness.** Preventive health is a cost-effective and efficient mechanism to increase health and well-being. Sustainable development requires maintaining the impact of any project beyond donor funding. USAID's efforts include long term strategies such as strengthening institutional capability and cost-effectiveness, and activities that broaden the base of organizational financial support, increasing ownership and participation in primary health care by women, families and communities.

**Progress in 1993-1994.** USAID's support of NGO programs has contributed to a national dialogue on the roles of the public and private sectors in health service provision. USAID has been an active participant, with other donors, in national task forces convened to address the problems of declining immunization coverage and nutritional status among infants. In both cases, strategies capitalizing on the strengths of the NGO community were adopted and implemented. In the case of the immunization program, NGO and donor assisted local immunization days have been carried out in approximately 10% of Nigeria's local governments. Comprehensive new policies for maternal and child health, immunization and oral rehydration have been written and are being implemented nationally. As a direct result of these efforts, there has been a demonstrable shift in public support, and Government statements now suggest a more receptive policy environment for NGO participation in health. The Government has even begun to relinquish control to allow NGOs a greater role in health care delivery, e.g., immunization. Early "participation meetings" have demonstrated a strong Nigerian NGO interest in health delivery partnerships with U.S. private voluntary organizations.

**Donor Coordination.** The World Bank maintains a program of support for secondary and tertiary health facilities while UNICEF continues with a five year child survival program concentrated on immunization and diarrheal disease control. Coordination is maintained through technical meetings among USAID and United Nations Children's Fund (UNICEF), World Health Organization, Ford Foundation, Lion's International and Rotary International's Polio Plus program.

**Constraints.** Efforts to improve immunization delivery systems in the private sector are dependent upon the continuing cooperation of the Government of Nigeria for the importation and distribution of vaccines to non-governmental organizations. Availability of quality essential drugs remains a concern and stock outs can hamper efforts to enhance the quality of health care services. USAID recognizes that the capacity of the Nigerian NGO community to delivery services is largely untested and infrastructural improvements are required to assure meaningful participation. In Northern Nigeria and in many rural areas, NGO programs are still developmental and coverage is sparse.

**Cross-cutting Issue: Improved HIV/AIDS Prevention and Control Practices (\$1,400,000).**

In addition to the objectives discussed above, USAID provides assistance for HIV/AIDS prevention and control activities. The HIV infection rate in Nigeria's general population is substantial, with the rate of infection in high risk populations increasing alarmingly. Studies of women at pre-natal clinics showed an increase in HIV infections from 1.2% in 1991 to 3.8% in 1994. Extrapolated to the general population this reflects an increase from an estimated 650,000 infections to 1.7 million in a 3-year period. If this uncontrolled spread of AIDS is not stopped, the costs of the epidemic to Nigeria's economic performance, not to mention human misery and degradation, will be devastating. Major U.S. companies in Nigeria are already having to cope not only with expensive medical care associated with AIDS but with losing highly trained and skilled Nigerians.

**Activities.** HIV/AIDS pilot prevention activities have been focused in three states, consisting of support for health education, condom distribution and studies of transmission in discrete populations.

**Indicators.** The two indicators adopted to monitor and assess program impact reflect the fact that no cure exists for AIDS and only education and behavior modification can retard the transmission of this disease: (1) Increased availability of condoms through social marketing from 17 million (1990) to 45 million (2000); and (2) Correct knowledge and favorable attitudes concerning AIDS transmission in the general population increased from approximately 10% in 1990 to 80% in 2000.

**Feasibility and Cost-effectiveness.** Nigeria was spared from the early ravages of the HIV/AIDS worldwide pandemic and has learned from the experience of countries devastated by this disease. National awareness of HIV/AIDS is growing and can continue to grow with modest but creative investments in information programs. The private sector has responded to the challenge with a series of programs directed at high risk populations in selected states, including three states in which USAID funded activities are focused. These pilot demonstrations have generated interest and self-funded efforts in other at risk areas of Nigeria. The condom social marketing program takes advantage of the thriving private commercial sector for distribution and sales of condoms where they are needed most.

**Progress in 1993-1994.** In 1993, approximately 2.5 million condoms were sold per month, a thirteen-fold increase in the market. From March to December 1993, Population Services International (PSI) sold 23 million condoms. Studies are planned to correlate this significant increase in sales with condom use by target populations. STOPAIDS, a USAID-supported Nigerian NGO, has reported substantial progress: AIDS awareness increased from 10% of its target population in 1989 to 90% in 1993 and condom use went from 0.025% to 48% during the same period. These positive changes in knowledge and behavior came as a result of the training provided to 120 peer health educators and 60 community based condom distributors.

**Donor Coordination.** USAID continues to be focal point for donor efforts in HIV/AIDS prevention. USAID supported programs are coordinated with the in-country efforts of the World Health Organization's Global Program on AIDS.

**Constraints.** The general economic decline and civil unrest in the country make implementation of programs difficult. The wide mobility of Nigerian armed forces within Nigeria and on peace keeping forces in several African countries will probably contribute to the spread of the disease. Cultural and religious attitudes make presentation of explicit educational and communication programs a sensitive issue in some parts of the country.



**Cross-Cutting Issue.**

**BUILDING DEMOCRACY (\$122,280).**

Nigeria is a participant in the Democracy and Human Rights (116e) Fund. This Fund is managed by the U.S. Embassy in Lagos on behalf of USAID. Since 1994, all activities supported under the Fund have been restricted to the private sector due to the current lack of democratic processes in Nigeria. The proposed recipient organizations in 1995 include human and woman's rights organizations, labor unions, pro-democracy groups and research organizations. Supported activities include publications, seminars, small office equipment, library support and selected research projects in the area of human rights and democracy.

**Other Donor Resource Flows.**

In FY 1993, the United States was the sixth largest donor to Nigeria, providing 5.4% of all donor contributions. Other major donors included UNICEF, the United Kingdom, the International Development Association, the European Development Fund and the African Development Bank Fund.

**NIGERIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Increased Voluntary Use of Family Planning.					
Dev. Fund for Africa	--	9,252,431	--	--	9,252,431
Dev. Assistance Fund	--	5,675,000	--	--	5,675,000
2. Improved Maternal and Child Health Practices.					
Dev. Fund for Africa	4,777,013	--	--	--	4,777,013
Dev. Assistance Fund	5,600,000	--	--	--	5,600,000
Cross-cutting Issues:					
Improved HIV/AIDS Prevention and Control Practices.	1,400,000	--	--	--	1,400,000
Building Democracy	--	--	--	122,280	122,280
<b>Total</b>	<b>11,777,013</b>	<b>14,927,431</b>	<b>--</b>	<b>122,280</b>	<b>26,826,724</b>

USAID Affairs Officer: Stephen J. Spielman

## RWANDA

**FY 1996 Development Fund for Africa Request: . . . . . \$5,451,273**

The recent war in Rwanda left its society devastated. Old societal rules and norms guiding social, political and economic behavior are in dramatic flux. Nearly two million Rwandans (25% of the population) are either displaced within Rwanda or are refugees in bordering countries. These displaced persons and refugees fear returning to their homes because of intimidation by militia groups that rule the camps, retribution for participation in the recent atrocities, or social and political insecurity in the country. The cost of Rwanda's rehabilitation is high, the capacity of the newly installed government is extremely limited, and most government authorities or structures are just barely functioning.

Though Rwanda has experienced drastic civil unrest and economic disruption, it is in the interest of the United States to assist Rwanda to prevent renewed conflict and to respond to the need for continued humanitarian relief. Since April 1994, approximately \$272 million in U.S. food and humanitarian assistance was provided to Rwanda. This figure does not include significant Department of Defense funding for this relief effort. The United States has an interest in ensuring a stable, economically productive and viable Africa. The crisis in Rwanda has had a profoundly negative effect on the other countries located in east and central Africa, particularly Burundi, which has a similar ethnic mix and tensions. A disorderly Rwanda further destabilizes Zaire, another country with a weakened and fragile government. Presently 1.6 million Rwandans are refugees, most of them in Zaire.

The United States is not the lead donor in Rwanda. However, the ability of the United States to leverage other donors is critical to rebuild Rwanda. For example, the U.S. contribution of \$2.5 million in FY 1995 to clear World Bank arrearages was an incentive to other countries to make similar contributions. Soon, substantial World Bank assistance will flow to Rwanda to rebuild the country.

### **The Development Challenge.**

Given the current situation in Rwanda, the development challenge is to re-establish public security and create an environment which facilitates the resumption of a functioning society. The specific U.S. Government objectives in meeting this challenge are to:

- (1) save lives in the refugee and displaced persons camps and stabilize camp environments;
- (2) stem further exodus of Rwandans into surrounding countries;
- (3) foster conditions for the safe return and ultimate reconciliation of Rwandan refugees and internally displaced persons (including unaccompanied children), and encourage voluntary repatriation once conditions are appropriate;
- (4) avoid the creation on Rwanda's borders of a permanent, hostile refugee community by creating conditions favorable to refugees' voluntary return;
- (5) encourage creation of a broad-based government that respects the rule of law and transparent governance;
- (6) help establish credible national and international systems for identifying, apprehending, trying and punishing those guilty of human-rights crimes, including genocide;
- (7) help re-establish basic economic and social-service infrastructure so that Rwanda can become self-reliant.

## **Strategic Objectives (SOs).**

The task of rebuilding Rwandan society suggests priorities for USAID. In descending order of importance and timing of implementation they may be considered as strategic objectives: (a) the establishment of new civil norms and rules at the local and national level to permit effective democratic governance; (b) the reconstruction and rehabilitation of Rwanda's economy, and (c) reinstating critical health and family planning services. Except for the priority on reintegration and rehabilitation, these strategic objectives correspond to USAID's sub-goals before the tragedy began.

### **BUILDING DEMOCRACY (\$524,424).**

**SO 1. The establishment of new civil norms and rules at the local and national level to permit effective democratic governance through the funding of local and national democracy and governance activities (\$524,424).**

USAID's first priority is to support activities that will help Rwandans from all ethnic groups, political parties, and geographic regions to establish peaceful coexistence and to lay the foundations on which to build participatory governance structures. A viable, operative government structure was vitiated by the civil war of April-June 1994. Without restoring essential government functions, including physical infrastructure, the political, economic and social development of Rwanda cannot resume.

Activities. The basic impetus for rebuilding Rwanda must come from the central government. USAID will support this effort by assisting the Government of Rwanda (GOR) in its efforts to re-establish the capacity of key ministries and the National Assembly to perform their normal functions and to strengthen their capacity to contribute to the social and economic development of the country. Re-establishing a judicial system through administration of justice activities will be a primary focus of USAID during this transition period.

Related Activities. To implement this priority, USAID will fund democracy and governance activities covering a wide range of interventions, e.g., human-rights monitors to receive citizens' complaints and to build cases against those who have committed crimes against humanity, legal specialists to assist in the development of property-rights law, including land tenure, local government advisors, and programs providing civic education and financial accountability at the local and national level.

Indicators. USAID indicators for measuring progress toward achieving this objective are: (1) implementation of the rule of law with respect to human and property rights; and (2) establishment of a foundation on which to build participatory governance structures.

Feasibility and Cost-effectiveness. There will be challenges to resuming assistance to Rwanda: How will the farm land of those who were killed or fled be reallocated or returned? How will local representatives be chosen? What will be the controls on local-government structures? What will be the relationship between the local and national governance structures? How will Rwanda's refugees and long-term displaced be reintegrated? A primary focus of USAID will be to ensure feasibility and cost-effectiveness by providing assistance only in those areas in which the GOR has indicated a serious commitment and willingness to implement mutual recommendations.

Progress in 1993-1994. Development progress was halted by the onset of the crisis in Rwanda. USAID has reoriented its strategy to respond to the fundamental needs of rebuilding civil society through this strategic objective. To date, USAID has provided assistance to the Ministry of Justice and other key development ministries to help them restart their functions.

Donor Coordination. Other donors are currently conducting assessments. A United Nations Development Program round table, held in mid-January 1995, permitted donors to contribute in their area of comparative advantage. Donors pledged a total of \$587 million; of that amount the U.S.

pledge was \$59.5 million. The GOR and the donor community look to the U.S. Government to play the lead role in democracy and governance.

**Constraints.** The collapse of governmental institutions and civil society during the war, and the subsequent severe limitations on the capacity and resources in both public and private sectors, make it extraordinarily difficult to mount and focus the limited donor assistance available on the rehabilitation and reconstruction of Rwanda. The precarious peace, fragile political underpinnings of the post-war government and the high segment of the populace in displaced or refugee status will further complicate these efforts.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$4,784,949).**

**SO 2. The reconstruction and rehabilitation of Rwanda's economy (\$4,925,349 of which \$4,784,949 is for Encouraging Economic Growth and \$140,400 is for Protecting the Environment).**

Reintegration, reconstruction and rehabilitation interventions supported by USAID will build upon the current humanitarian-relief program to smooth the transition from emergency to reintegration to development. Nongovernmental organizations (NGOs) and private voluntary organizations (PVOs) with experience in Rwanda will be encouraged to continue their efforts.

**Activities.** USAID's assistance to displaced persons project will fund activities that meet emergency needs in ways that transfer traditional development technologies which Rwandans can use when they return home. For example, CARE and AFRICARE have taught Rwandans in camps how to build improved stoves with local materials, to build and manage pit latrines, to carefully harvest woodlots, and to manage water points. This knowledge will return home with the Rwandans. NGOs can follow the Rwandans back to their homes and work with them to identify and execute reconstruction activities.

**Related Activities.** Reconstruction activities also will be integrated with steps to demobilize and reintegrate soldiers. Plans had been drawn up to have soldiers demobilize into areas where they would work on specific reconstruction projects and settle there permanently. Approximately \$8 million in USAID-Government of Rwanda local-currency counterpart funds were reserved for these purposes prior to the 1994 hostilities and are available, in principle, to assist in the reconstruction effort.

**Indicators.** USAID indicators for measuring progress toward achieving this objective are: (1) return of refugees and displaced persons to their homes and (2) availability of goods, services and income to purchase goods and services.

**Feasibility and Cost-effectiveness.** While urban areas have considerable needs, USAID will weigh the benefits of funding activities in urban areas with those in rural areas. Urban infrastructure projects are costly and offer fewer opportunities for hands-on learning experiences for local participation and governance. They may be more suitable for multi-donor and World Bank financing.

**Progress in 1993-1994.** As USAID is just beginning activities under this strategic objective, there is nothing to report at this time.

**Donor Coordination.** Other donors are currently conducting assessments. It is expected that a multi-donor relief and rehabilitation effort will be developed which permits each donor to contribute in its area of comparative advantage. USAID is recognized as having been a leading contributor of emergency relief. It is expected that this effort will continue with close coordination with other NGOs, other donors, and among USAID's Washington offices and the field mission on rehabilitation issues.

**Constraints.** In a climate of doubt over prospects for stability and political conflict over access to productive resources, land in particular, the restoration of the economy will be a major challenge.

## **STABILIZING POPULATION GROWTH (\$1,500).**

### **SO 3. Reinstitution of health and family planning services (\$1,500).**

With the highest population density in Africa, virtually no new land to cultivate, and few opportunities for Rwandans coming of age to find productive jobs, Rwanda's population-growth rate of over 3% adds further pressure on a society with few apparent options. Not addressing Rwanda's population problem means that the benefits of any absolute economic gains will be eroded. Encouragingly, survey data prior to hostilities revealed that the demand for contraceptives continues to exceed the supply.

**Activities.** Only small initiative will be possible at this time. While extremely important, this SO will have to be deferred until such time as the immediate issues of democracy and governance, and rehabilitation and reconstruction are addressed.

**Indicators.** USAID indicators for measuring progress toward achieving this objective will be: (1) contraceptive prevalence rate and (2) increased couple-years of protection.

**Feasibility and Cost-effectiveness.** As the fundamental elements of government and society are restored, USAID can begin to resume development activities under this strategic objective.

**Progress in 1993-1994.** Increasing the contraceptive prevalence rate is an area of USAID success. As the major donor since the early 1980s, USAID has helped Rwanda become one of four countries in Africa to begin to make the demographic transition. Both government and non-governmental channels have been used to deliver contraceptives and the complementary education. It is a prime area where USAID has a comparative advantage and where it can demonstrate to the new government that "government" should not try to do it all and that non-governmental, not-for-profit and private channels can deliver services more effectively.

**Constraints.** Before the 1994 disruption, Rwanda had a well-developed family-planning network. A major constraint will be reforming these networks and restoring services with limited human resource capacity.

### **Cross-Cutting Issue.**

## **PROTECTING THE ENVIRONMENT (\$140,400).**

Rwanda's unique environment historically has been a priority interest to the U.S. development program. This interest will continue in FY 1996 and will cover funding for research efforts and protection of Rwanda's gorilla population as part of SO 2.

### **Other Donor Resource Flows.**

Prior to the 1994 crisis, the major donors to Rwanda were the World Food Program, Belgium, and Germany. Since April 1994, the United States is the leading donor in meeting emergency relief needs. The United States has given more than \$270 million in relief supplies to meet the crisis in the Rwanda Region. At the 1995 UNDP Roundtable, the United States pledge of \$59.8 million was second only to \$80 million pledged by Germany. Austria's pledge of \$35.5 million was third and Canada's pledge of \$32.2 million was fourth.

**RWANDA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Establishment of New Civil Norms and Rules at the Local and National Levels.	--	--	--	524,424	524,424
2. Reconstruction and Rehabilitation of the Economy.	4,784,949	--	140,400	--	4,925,349
3. Reinstitution of Health and Family Planning Services.	--	1,500	--	--	1,500
<b>Total</b>	<b>4,784,949</b>	<b>1,500</b>	<b>140,400</b>	<b>524,424</b>	<b>5,451,273</b>

USAID Mission Director: Myron Golden

## SENEGAL

**FY 1996 Development Fund for Africa Request: . . . . . \$ 27,203,200**  
**FY 1996 Development Assistance Fund Request: . . . . . \$1,900,000**

Senegal is one of only a handful of politically stable, multiparty democracies in Africa. It is a moderate Moslem-dominated nation in a region in which fundamentalism is on the rise. Senegal continues to play an important and constructive role on a number of security issues, including U.N. peacekeeping activities and sub-regional conflict resolution. It is in the U.S. interest to (a) strengthen Senegal's stabilizing influence in Africa and in the Moslem world, (b) maintain Senegal's political stability, (c) promote Senegal's successful transition to a competitive, market-based economy, (d) encourage continued improvement in Senegal's democratic and human rights achievements, and (e) promote crop productivity and food security. U.S. policy in Senegal is one of support for a moderate, pro-Western, stable democracy in West Africa.

### **The Development Challenge.**

The development challenge facing Senegal has changed dramatically over the past year. On January 12, 1994, West African Franc (CFAF) zone heads of state agreed to devalue the CFAF by 50%. In Senegal, the devaluation was combined with a serious assault on many of the institutions established by the Government of Senegal (GOS) during its statist approach to the management of the economy. In the past, despite its political stability, Senegal's overall record of economic growth has been poor. Average per capita income has virtually stagnated since independence. Senegal suffers from rapid population growth (2.9% per year), a poor natural resource base, an overstaffed public sector, revenue shortfalls, high childhood mortality rates (131 deaths per 1,000), and a fragile environment vulnerable to natural calamities such as drought, desertification and locusts.

Basic health and social services are severely limited, especially for women and children. Maternal mortality (510 deaths per 100,000 live births) is high. Many infants die of easily preventable diseases. Senegal's population (7.8 million) long ago surpassed the human carrying capacity of the land in terms of cereals production. Annual increases in the work force overwhelm the country's meager capacity to generate jobs. Agriculture, in spite of its relatively small (20%) share in GDP, is the principal source of income for about 70% of the population. Wind erosion, reduced rainfall, and declining soil fertility severely constrain the efforts of Senegal's farmers to increase crop productivity.

The Senegalese Government's macroeconomic management of the economy, poor in the past, has dramatically improved. Since the devaluation, the GOS has been working closely with the International Monetary Fund and the World Bank on macroeconomic policy issues. Reforms include liberalizing agricultural markets and dismantling key parastatal firms which have frustrated the emergence of market-based prices for products essential to the poor majority.

### **Strategic Objectives (SOs).**

USAID's program deals with two long-range issues of great consequence to Senegal's development: population growth and the deterioration of the environment. U.S. assistance contributes directly to improving the quality of life of the Senegalese people through a process of long-term development that is equitable, participatory, self reliant and environmentally sustainable.

USAID's development program is based on three strategic objectives: (1) decrease family size; (2) increase market liberalization (for agriculture and natural resource-based products and, (3) increase crop productivity in zones of reliable rainfall and increase the value of tree production.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$16,822,131 of which \$15,822,131 DFA and \$1,000,000 DAF).**

**SO 1. Decrease Family Size (\$9,430,000 including \$1,000,000 of DAF of which \$5,480,000 is for Stabilizing Population Growth and \$3,950,000 is for Encouraging Economic Growth).**

To help decrease family size in Senegal, and slow Senegal's 2.9% annual population growth rate, USAID supports both public and private family planning services. Rural-urban differences in income, employment, literacy, breast-feeding practices and fertility traits have shaped a two-pronged program to improve the delivery of family planning services in urban areas and to increase the awareness of family planning in rural areas. USAID is also planning to move into service delivery in rural areas to respond to increased demand. Child survival interventions that support the acceptance of family planning interventions are included in the program.

**Activities.** The USAID/Senegal Child Survival/Family Planning Project supports family planning interventions (policy reform, training, health education, logistics and family planning management systems, commodities, equipment and supplies). It also funds child survival interventions (high rates of infant and child mortality now compel couples to maintain high birth rates to ensure the survival of a few healthy children). The proposed Social Marketing Development Project scheduled to start in FY 1996 will encourage distribution by the private sector of contraceptives and essential health products and will contribute to a further increase in contraceptive prevalence by FY 1997.

**Related Activities.** It is essential that Senegal's national leadership recognize the long-term implications of rapid population increases on the demands for scarce resources and weak public services. USAID has led the policy dialogue to establish a decentralized health planning system in which regional and district-level groups establish health plans that better reflect their own local needs and approaches. This decentralization process is essential to the achievement of strategic objective number one.

**Indicators.** Indicators for achieving the objective are: (1) reduce the total fertility rate from 6.6 to 6.0 in 1997; (2) increase the contraceptive prevalence (modern methods) for urban areas nationwide from 6.7 to 18.0 in 1997; and (3) increase knowledge of one modern contraceptive method from 68% for men (in 1993) and 58% for women (in 1986) to 90% for both in 1997. USAID plans to establish oral rehydration units in over 200 health care facilities and provide oral rehydration salts.

**Feasibility and Cost-effectiveness.** USAID focuses its efforts to stimulate increased use of modern contraceptives in urban areas where effective demand for modern contraceptives already exists. The lack of effective demand for family planning services in most rural areas makes service provision much less cost-effective than in urban areas. USAID is combining service provision with demand generation, as well as community approaches to contraceptive provision (community-based distribution, social marketing, etc.). USAID is also working closely with the Ministry of Health to develop alternate health care financing strategies, with increased community and private sector involvement.

**Progress in 1993-1994.** Senegal's fertility rate declined from 6.6 to 6.0 in the 1986-1994 period, significantly ahead of schedule (attainment of the 6.0 level originally had been targeted for 1997). The contraceptive prevalence rate in urban areas rose from 6.7% to 11.8% over the same period. Couple year protection increased by 75% from 1986 to 1994. A decline in the desired ideal family size of urban Senegalese, from 5.5 in 1986 to 4.8 in 1993 (from 7.6 to 6.7 in rural areas) indicates a latent demand for family planning services. A 1993 health survey shows that USAID's child survival activities have helped decrease infant mortality (0-1 years of age) to 68 deaths per 1,000 live births, and overall child mortality (0-4 years of age) to 131 deaths per 1,000 live births. Oral Rehydration Therapy (ORT) is widely used in rural clinics and village health posts to control diarrheal disease and 75% of mothers recently surveyed know how to use ORT.



**Donor Coordination.** Since 1981 USAID has been the lead donor supporting family planning programs in Senegal. USAID holds regular meetings with the World Bank, United Nations agencies and non-governmental organizations that have programs which contribute to the achievement of this strategic objective.

**Constraints.** Senegal is a stratified, traditional, polygamous Moslem society. Social and cultural changes that precede a substantial decline in family size occur slowly. These constraints are very important, but poorly understood. In many areas, notably in urban centers, the main constraint is the inadequate supply of family planning services. Many studies suggest that the joint availability of family planning and maternal child health (MCH) services is an important determinant of contraceptive use; the relative weakness of MCH services in Senegal may be inhibiting the increased use of modern contraceptive techniques.

**SO 2. Increase Market Liberalization (\$7,511,000 of which \$7,257,480 is for Encouraging Economic Growth, \$250,000 is for Protecting the Environment, and \$3,520 is for Building Democracy).**

The continued liberalization of markets for natural resource-based products is essential to strengthening Senegal's agricultural sector. Markets for cereals, groundnuts, and tree products are of critical development significance since these are products that are overwhelmingly produced and/or consumed by the poor. USAID supports the privatization of parastatal enterprises as well as the liberalization of markets. USAID currently is focussing on the rice, and to a lesser extent, the groundnuts markets.

**Activities.** The rice sub-sector is one of the last bastions of state control in Senegal. Conditionality under the Rice Structural Adjustment (RSA) program calls for reforms that will get parastatals out of domestic and imported rice marketing and processing, eliminate direct and indirect subsidies to rice producers and processors, privatize rice imports, and eliminate administered prices for paddy rice. The direct beneficiaries of the program will be local farmers and private enterprises engaged in producing, marketing and processing rice. Technical assistance is built into a companion project to systematically track progress of the reform process and its possible effects on vulnerable groups. USAID is also providing assistance to privatize the giant groundnuts collection and processing parastatal.

**Indicators.** Indicators for achieving the objective are: (1) reduce marketing margins to their competitive levels (percent margin) from 26% in 1991 to 15% in 1997; (2) increase agricultural product marketed through the private sector (percent of total) from 46% in 1991 to 95% in 1997; (3) increase number of major wholesale cereal traders in Dakar from 279 in 1992 to 300 in 1997 and outside Dakar from 185 in 1992 to 200 in 1997; and (4) decrease government regulations for domestic rice markets.

**Feasibility and Cost-effectiveness.** The impact of privatizing existing parastatals and liberalizing markets in the rice and the groundnuts sub-sectors will yield massive benefits to the economy as a whole. Market liberalization will eliminate the economic rents appropriated by parastatal monopolies and politically well-connected large traders. The incomes of small farmers and small traders will rise as competitive markets emerge. Privatization of the groundnut parastatal is an extremely cost-effective use of USAID funds.

**Progress in 1993-1994.** The recent devaluation of the CFAF franc has changed the fundamental premises of agriculture sector policy and made more rapid liberalization possible. USAID has assisted the GOS to completely privatize the paddy trade and paddy processing industry and to completely liberalize the price of paddy rice. The successful privatization of long-grain rice in 1993 under the P.L. 480 Title III program, coupled with the 1993 agreement on a comprehensive rice structural adjustment program, are significantly improving the efficiency of rice marketing in Senegal and promoting greater food security. This also will result in decreased government expenditures, lower consumer prices and more money in the pockets of domestic rice farmers.

**Donor Coordination.** Other donor support for agricultural market liberalization includes the World Bank, the French, the European Committee, and the Italians who have ongoing programs focusing on cost reduction, elimination of remaining price controls (on rice, groundnuts, and transportation), and privatization of processing and marketing activities.

**Constraints.** The chief constraint to any policy reform effort is the political will to implement the reforms. Powerful vested interests, such as large monopolies benefitting from special agreements with the GOS, oppose the reforms. Also, as noted earlier, Senegal's fragile environment is subject to drought, desertification and locusts. In the event of a serious drought or severe infestation of locusts, the government would be unable to resist the pressure to intervene in the marketplace.

## **PROTECTING THE ENVIRONMENT (\$6,714,367).**

**SO 3. Increase Crop Productivity In Zones of Reliable Rainfall and Increase the Value of Tree Production (\$9,612,200, of which \$6,464,367 is for Protecting the Environment, \$3,064,651 is for Encouraging Economic Growth, \$69,840 is for Building Democracy and \$13,342 is for Stabilizing Population Growth)**

Farmers in Senegal have been understandably reluctant to use fertilizer and other purchased inputs in rainfed agriculture unless those inputs are heavily subsidized. USAID promotes an alternative, low-cost, strategy based on the widespread adoption of a package of natural resources-based management (NRM) technologies. USAID is helping farmers adopt natural resource saving or enhancing technologies combined through the empowerment of local rural populations. USAID focusses its interventions in zones of reliable rainfall (essentially the southern half of the country) to ensure that its funds are concentrated in areas of relatively modest climatic risk.

**Activities.** The Natural Resources-Based Agricultural Research (NRBAR) Project continues to improve the productivity of cropping systems for millet, sorghum, corn and rice. The Community-Based Natural Resources Management (CBNRM) Project uses both policy dialogue and project interventions to increase small farmer and private sector incomes derived from exploitation of natural resources, consistent with decentralized, sustainable natural resource management. USAID plans to launch a new Natural Resources Sustainability non-project assistance activity to support the development and implementation of a coherent Natural Resource Management (NRM) policy, including an Environmental Action Plan which will provide incentives for sustainable management and conservation of natural resources. Other activities include fostering small agriculture-based enterprises and helping PVOs/NGOs improve their capacity to design and execute their own natural resources management development activities. These activities will improve productivity, increase access to credit, and raise incomes for rural populations.

**Indicators.** USAID indicators for measuring progress are: (1) to increase agricultural productivity, in kilograms per hectare, for six key crops (millet, sorghum, rice, groundnuts [for oil], edible groundnuts, and maize); (2) to increase the use of ten productivity-increasing natural resources management technologies; (3) to increase the number of trees planted and surviving one year; and (4) to increase the managed land area used for the regeneration of trees. Overall indicators call for the transfer of improved agronomic technologies to 45,000 rural households, the expansion of annual cereal production to 1.3 million tons in reliable rainfall zones, and the increase of incomes of 50,000 households through the sale of cereals and forest products.

**Feasibility and Cost-effectiveness.** USAID's NRM strategy is a long-term development strategy designed to raise the incomes of poor farmers who have limited access to modern purchased inputs. Project-level analyses strongly suggest that, with even modest projected successes, a NRM strategy can be very cost-effective. However, the payback period on many of these interventions is quite long; accordingly, the impact of adopting these technologies will not be immediately evident. USAID tracks agricultural productivity data for the six key crops.

**Progress in 1993-1994.** Both the GOS crop estimates for 1994 and the 1994 Knowledge, Attitudes, Practices survey indicate that, except for sorghum, yields have increased for millet, rice, maize, and groundnuts (both edible and for oil). This was due to a combination of the good rainfall pattern recorded in the growing regions, availability of good quality seed, and to other farm management practices. Land reclaimed for rice production has doubled since 1993, resulting in a 10% rice yield increase. 1993 cereals production was 1.1 million tons; 50% of rural households are now using new agronomic technologies. All of these gains have benefited the 5.5 million Senegalese whose principal source of income is agriculture.

Total trees planted (3,600,000) have now exceeded the target established for 1997 as has the percentage of trees surviving (now 58% nationwide, compared to a 1997 target of 40%). Hectares managed for forest regeneration increased 16%, surpassing the 1993 target by 700 hectares. USAID supported the adoption of a new Forestry Code, creation of a Senior Council for Natural Resources Management and the Environment (CONSERE), and continues to support development of a National Environmental Action Plan that will further reinforce GOS commitment to environmental protection.

**Donor Coordination.** The donors concerned with natural resources and environmental issues, including the U.S., Holland, France, Germany, Canada, the World Bank, and the European Union, meet regularly to exchange technical information and coordinate efforts in agricultural sector and natural resources policy reforms. USAID is an active member of the donor group and ensures that environmental and natural resource concerns receive due attention. USAID is the leading donor for natural resources and environmental protection and the major donor supporting CONSERE.

**Constraints.** In order to intensify and diversify agriculture to increase the agricultural productivity of cereals and other crops, technological changes through agricultural and natural resources management research are necessary. A recent study of rural households also showed that farmers' lack of access to credit and the absence of a viable rural financial system inhibit sustained rural development. USAID and other donors are exploring how best to deal with issues of rural finance.

#### **Cross-cutting Issues.**

##### **Control the Spread of AIDS (\$1,950,000 included in Economic Growth).**

In addition to the above, USAID-supported HIV/AIDS activities assist in achieving the Mission's objectives. At 1%, the HIV infection rate in Senegal is relatively low by African standards. Nonetheless, annual increases of HIV positive cases of 2.7% and of actual AIDS case of 6.8% reflect the potential for an alarming epidemic. To counter this, USAID is targeting behavioral changes in high-risk urban groups, reductions of sexually transmitted diseases (STD), and increased distribution of condoms. USAID is also working with GOS policy makers to achieve and maintain an environment conducive to AIDS prevention activities.

**Indicators.** By FY 1998, 200,000 members of target groups will participate in risk reduction communication activities; 10 million condoms will be distributed to the target population; 95% of health care providers will be trained in STD diagnosis and treatment; and 85% of STD patients will receive appropriate treatment and education.

**Progress in 1993-1994.** USAID has been instrumental in assisting the GOS to implement its AIDS prevention program and in providing support to targeted regions. Senegal boasts the most advanced AIDS laboratory in West Africa whose researchers, collaborating with Harvard University, discovered the HIV II strain. Prevention activities are showing success in Senegal's four major urban areas, with prevalence rates, STD incidence, and condom use monitored regularly. USAID supports PVO and public sector involvement in AIDS prevention activities.

**Donor Coordination.** Other donor agencies are heavily involved in Senegal's health sector and specifically in AIDS control and prevention. Over 80% of the government's Medium Term Plan for the AIDS Program is financed by various donors. The UNDP has assumed the leadership role. The Senegal National AIDS Program leadership is judged to be one of the most active and effective in West Africa. Donors meet quarterly with the National AIDS Committee to coordinate inputs. Any donor-sponsored workshops, training seminars, and conferences ensure that invitations go out to all donors.

**Constraints.** New initiatives are needed to contain the spread of this illness and the disease, primarily in the area of professional and public education of Senegal's health workers, leaders and the general public. USAID efforts focus on providing training for health workers and increasing the public's understanding of HIV infection and AIDS and encourage the public to adopt life styles free of risk of infection. With the spread of HIV infection to rural areas increased service provision by the government and PVOs/NGOs at local levels is urgently required.

**Cross-cutting Issues.**

**Human Resources Development (\$600,000 included in Economic Growth).**

In addition to the objectives discussed above, USAID ensures that training and gender concerns are anchored in each of its strategic objectives. USAID assistance included sponsorship of training and seminars to help improve democratization and good governance. Since 1988, USAID has funded over 12,000 participant trainees in various sectors, including long-term participant training in the U.S. and local training for private sector entrepreneurs in management and technical fields. Approximately 35% of these trainees were women.

**Other Donors Resource Flows.**

In 1993, the USAID provided 9% of all donor contributions to Senegal, placing the United States as the third largest bilateral donor (behind France and Italy) and the sixth largest donor overall. The major donors are France, the International Monetary Fund, the World Bank, Italy, and the European Union.

**SENEGAL  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
<b>1. Decrease Family Size.</b>					
Dev. Fund for Africa	3,950,000	4,580,000	--	--	8,530,000
Dev. Assistance Fund	--	900,000	--	--	900,000
<b>2. Increase Liberalization of the Market for Agriculture and Natural Resource-based Products.</b>	7,257,480	--	250,000	3,520	7,511,000
<b>3. Increase Crop Productivity in Zones of Reliable Rainfall and Increase Value of Tree Production.</b>					
Dev. Fund for Africa	2,064,651	13,342	6,464,367	69,840	8,612,200
Dev. Assistance Fund	1,000,000	--	--	--	1,000,000
<b>Cross-cutting Issues:</b>					
HIV/AIDS	1,950,000	--	--	--	1,950,000
Human Resources Dev.	600,000	--	--	--	600,000
<b>Total</b>	<b>16,822,131</b>	<b>5,493,342</b>	<b>6,714,367</b>	<b>73,380</b>	<b>29,103,200</b>

USAID Mission Director: Anne M. Williams

## SOMALIA

**FY 1996 Development Fund for Africa Request: . . . . . \$5,563,086**

Only two years ago anguishing images of starving Somali children reached every home in America. The United States responded with Operation Restore Hope in December 1992, and has since been the leading world power assisting in the rehabilitation of Somali food security. The United States interest in Somalia is humanitarian; to help prevent a return to the conditions that prompted the massive international intervention of 1992. Mass starvation and widespread civil disorder in Somalia is certain to generate more refugees and contribute to instability in neighboring countries. The U.S. remains politically engaged in Somalia now and during the departure of United Nations Operation in Somalia forces. Faction and clan leaders within the country have been unable to find a common basis for national reconciliation, causing instability in the entire Horn of Africa region.

Despite Somalia's fractious reputation, conditions within the country have improved markedly today over the past year as people have returned to their communities in order to take advantage of above-average rains. In part due to American relief and development assistance, few Somali communities are at risk today of widespread famine. Within these local communities lies the base for rehabilitation and development following the significant investment made in Operation Restore Hope and through which modest U.S. development assistance to Somalia can continue to have an impact and prevent renewed crisis.

### **The Development Challenge.**

Somalia is considered one of the poorest countries in Africa. Life expectancy is 47 years, and the estimated gross national product per capita is less than \$150. Although a pastoral society by tradition, agriculture plays a vital role in the economic and social life of the country. While the inter-riverain area is capable of producing a significant cereal crop in good years, Somalia is a chronic food deficit country. Assistance to the agricultural sector, coupled with livestock exports, could improve food security for Somalia if resources are used wisely and a basis for national cohesion can be found.

During the Siad Barre years, a top down approach was used to forge a country using Somalia's geo-political position to extract international support for an increasingly fragile government. Today, many political factions would like to replicate this same approach with the hope of benefiting family and clan. However, given the highly fragmented nature of Somali society, most Somalis now see their future in a loosely federated state in which national cohesion will build slowly from the bottom up.

### **Strategic Objectives (SOs).**

The USAID program focuses on increasing the national capacity for food security. Due to the fragile nature of present day Somalia, USAID project time lines are short (1-3 years) and specific activities support cost effective local initiatives and promote and encourage community participation and reconciliation. To achieve the goal of improved household-level food security, bilateral resources will be used together with Office of Disaster Assistance (OFDA) resources to improve two aspects of food security: production and utilization. Project interventions will seek to support cost-effective measures that will improve the quality of life of individuals, families and communities.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$4,915,668).**

**SO 1. Increase food crop production in the inter-riverain area (\$2,415,000 of which \$2,400,000 is for Economic Growth and \$15,000 is for Protecting the Environment).**

Agriculturalists and agro/pastoralists were the hardest hit by the civil war. Herds were looted and killed, food stocks were destroyed and people fled to find safety and food. In order to re-establish a

functioning society, the first order of business was food production using simple tools and existing seeds. USAID activities will seek to increase food crop production by increasing land under cultivation, rehabilitating water resources and by improving seed multiplication practices and community-based agricultural extension services. UNOSOM's departure does not mean that Somalia will face the same problems that prompted the U.S.-led international intervention in December 1992. The restoration of security in the countryside and good rains in most areas have enabled agriculture to rebound to over 65% of pre-war levels, depending on the region. Even though the political situation in Mogadishu remains tense, many areas outside the capital are relatively stable. Harvests have been good and there is no widespread famine today.

**Activities.** During the late 1980s Somalia grew enough cereals to supply local consumption. In order to rebuild this base, Mission activities will continue to promote the return and resettlement of displaced people to rural areas so that they can resume cultivation. Using International Disaster Assistance resources, seeds and tools will be provided so that cultivation can begin and total land under cultivation can increase. Improved seed multiplication practices, water storage rehabilitation and farmer extension services will be supported through the Somalia Rehabilitation and Recovery Project with CARE International.

**Related Activities.** The Mission buy-in to the Famine Early Warning System (FEWS) III project will provide increased understanding of the factors that contribute to food security including weather, livestock grazing and export and commercial food sales. USAID staff will work cooperatively with WFP and the European Community (EC) to develop systematic data collection and analysis that will assist all partners in Somalia's development and provide a functioning FEWS system for an emerging Somali government. Somalia is also a part of the Greater Horn of Africa Initiative (GHA). Activities in the health sector will improve farmer productivity.

**Indicators.** USAID indicators for measuring progress will be to increase land under cultivation for cereals during the Gu season (long rains) from the 1994 level of 566,000 hectares to 708,000 hectares (20%) over a three year period, and to increase maize yields by 10% and sorghum yields by 5%.

**Feasibility and Cost-effectiveness.** USAID activities are designed to work with community groups building on existing technology and available human resources. The goal is to enable farmers to expand production by increasing cultivation and to marginally increase yields through improved seed multiplication and farming practices. Activities have a low input requirement, thus keeping the project focused on community initiative and local human resources in order to promote sustainability. Implementors will be local community groups or established international non-governmental organizations (NGOs) working within a Somali community. Small-scale seed-multiplication activities are designed to assist local farmers to multiply quality certified seeds and then to sell the seeds within their own communities. This cost recovery approach will enable the farmers to continue seed multiplication when project funds are finished.

**Progress in 1993-1994.** USAID estimates that land under cultivation during the 1993 Gu season (long rains) was 40% of the pre-war level in the rain-fed areas. This increased to 80% during the 1994 Gu season. This increase was due in good measure to resettlement programs that provided seeds and tools and to food-for-work activities that enabled farmers to stay on the land during the growing season. These activities were supported by International Disaster Assistance resources used in conjunction with the Development Fund for Africa resources and P.L. 480 food. Farmgate prices were supported by local cereal purchases using the proceeds from the sale of P.L. 480 high value food.

**Donor Coordination.** The WFP and the EC both support agricultural rehabilitation often using local and international NGOs as implementors. Half of WFP's program directly supports rural development activities that increase agriculture and water resources. In the past the United States provided about 25% of the food-aid resources utilized by WP. The EC, using both emergency and development

resources, supports localized activities that encourage improved seed multiplication practices, improved farming methods, child-to-child fruit tree cultivation and simple on-farm trials. Both WP and the EC will work cooperatively with the USAID FACE III project to increase understanding of food security issues and to sponsor workshops that increase involvement of trained Somali agriculturalists in implementing project activities.

**Constraints.** Erratic rain patterns make Somalia susceptible to periodic, wide-scale drought and localized drought even during relatively good rainy seasons. Security and internal stability are essential to keep the farmers on the land. Over the next three years, improved localized security and effective local authority will be more important than national security and a central government.

**SO 2. Stabilize health status of children and mothers in target areas (\$2,517,168 of which \$2,515,668 is for Economic Growth and \$1,500 is for Stabilizing Population Growth).**

Child survival has always been problematic in Somalia. Mortality figures for children under five were recorded as 211 per 1000 in 1992, the twelfth highest in the world. In the absence of a vertical health care delivery system, children and mothers are generally unable to obtain curative health care. Basic nutritional requirements are so scarce that basic intervention is not even contemplated until weight-for-height reaches below the 5th percentile. Common ailments such as diarrhea and respiratory infections regularly claim lives. In the absence of a central government and resources from a tax base, the re-establishment of a preventive health care system is neither practical nor sustainable. However, lives can be saved and health status stabilized or improved through preventive care, nutrition surveillance and health education.

**Activities.** To reduce morbidity and mortality the Somalia Rehabilitation and Recovery project will fund training programs for Community Health Workers (COW) and Traditional Birth Attendants (TEA). This project will also support community water projects to improve the quantity and quality of drinking water. Where populations are stable, Expanded Program of Immunization (EPI) activities will be supported through a grant to UNICEF. International Disaster Assistance resources will continue to support the rehabilitation of maternal child health clinics and outpatient facilities. Community health posts will be supported with health kits provided by UNICEF with International Disaster Assistance funds. Hospital and clinic staff will receive food as salary from WP using P.L. 480 food.

**Indicators.** The indicators for measuring progress toward achieving this objective are: community health posts will increase by 20% in the central and southern regions, fifty percent of all COW's and Tubas will receive refresher courses during the three year period, and weight for height ratios will increase by five percent for children under five living in project areas.

**Feasibility and Cost-effectiveness.** Preventive health care is the most cost-effective means of improving and stabilizing health status. Relying on basic knowledge and simple, easily maintained tools, many debilitating and life threatening health problems can be prevented or treated. In the Somalia context, community health has four partners: the community which selects and supports the COW, the NGO which does the training, UNICEF which provides the health kits and the patient who learns new health practices. This low input approach maximizes community involvement and encourages sustainability. The CHW network can also neatly fit into a curative health network when a Ministry of Health is established and when resources are available for a national health care system.

**Progress in 1993-1994.** Malnutrition in children and mothers is rarely limited to food intake. The body must also be able to utilize food resources effectively. Therefore, food resources have worked with improved health practices to obtain the desired results. During 1993, malnutrition levels in children dropped sufficiently to discontinue most emergency feeding programs. In 1994 there was increased nutritional stability with only localized interventions primarily among displaced populations in urban areas. UNICEF estimates that 970 CHWs and TBAs were trained during 1993-94 extending health coverage to 286 health posts in the more stable parts of the country.



**Donor Coordination.** USAID works together with UNICEF, WFP, the EC and a wide range of local and international NGOs to promote improved preventive health. UNICEF provides some sectoral coordination and standardization in the absence of a national ministry. It also provides instructional material, immunization packages including cold chains and health post supplies. The EC, through both relief and development resources, supports health care training and has encouraged cost recovery strategies. WFP provides curative health care workers their salary in the form of high-value food commodities and supports the building and rehabilitation of health posts through food-for-work programs and grants from the proceeds of monetized food.

**Constraints.** Health care which focuses on village-level preventative care works best as a part of a more professional curative care network. Although preventative care is a cost-effective way to save lives, there are many problems which are beyond the knowledge level of the CHW. It is unlikely that any sort of referral network will be available until a central government is established which has substantial funds earmarked for health care.

#### **BUILDING DEMOCRACY (\$630,918).**

In addition to the objectives discussed above, USAID will continue to support reintegration activities for refugees, displaced and ex-militia. Food security can only be obtained in Somalia if there is reasonable personal security and if people are engaged in productive activities. Therefore, the continued need to encourage reconciliation and reintegration cuts across all aspects of USAID's work, as well as the overall stability of the Horn of Africa region.

Project activities will support inter- and intra-community mediation, skills training, short-term public works employment and employment generation. Working with CARE, UNDP and WFP, U.S. resources will promote the reintegration of militia and other displaced persons into their home communities and to assist in the physical rebuilding of war torn communities and towns.

#### **Other Donor Resource Flows.**

In 1993 the United States provided about 30% of all donor assistance, ranking second to the EC which was the largest contributor. The biggest implementors are the UN agencies using resources from member nations and the implementation capacity of local and international NGOs.

**SOMALIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Increase Food Crop Production in the Inter-riverain.	2,400,000	--	15,000	--	2,415,000
2. Stabilize Health Status of Children and Mothers in Target Areas.	2,515,668	1,500	--	--	2,517,168
<b>Cross-cutting Issue:</b>					
Democracy/Governance	--	--	--	630,918	630,918
<b>Total</b>	<b>4,915,668</b>	<b>1,500</b>	<b>15,000</b>	<b>630,918</b>	<b>5,563,086</b>

USAID Mission Director: Ronald E. Ullrich

## SOUTH AFRICA

**FY 1996 Development Fund for Africa Request: . . . . . \$131,878,242**

The Republic of South Africa is strategically located at a critical point on the sea lanes and contains deposits of many minerals and strategic materials. It has the most developed and diversified economy in Africa and possesses the continent's most modern and efficient road, rail and telecommunications networks. The 1993 Gross Domestic Product (GDP) of more than \$117 billion is more than four times larger than the rest of the Southern Africa region combined. South Africa is the United States's largest trading partner in Africa, with bilateral trade about \$4 billion in 1993. U.S. private sector investment in the country exceeds \$1 billion. Given the strategic and economic importance of a stable and prosperous South Africa, it is in the national interest of the United States to ensure that all of the country's citizens are permitted to achieve the economic benefits of their new-found political freedoms.

### **The Development Challenge.**

One year ago the majority of South Africans were without voting rights and severely limited in their access to basic economic and social benefits. Following the remarkable success of the non-racial, multi-party national elections and the transition to a majority government, the reconstruction and development of the new South Africa is now underway. Today, through a triumph of democratic will, the system of apartheid, with all of its injustice, is history. The world has witnessed the birth of a new South Africa, one that merits the full support of the world community. The potential for success is great and with it comes the African continent's best example for democracy and an "economic engine" that could eventually benefit the entire continent. The newly-elected South African government is moving ahead with trade liberalization and strict budget discipline. Privatization and further deregulation of the economy also are targets for policy reform. Barriers to foreign investment are limited and most businesses can be started with a minimum of formalities. The new government is well aware that economic and political freedom go hand in hand. USAID/South Africa's post-election goal is "to increase the majority population's political, economic and social empowerment." A key priority under this strategy is to assist the new democratic government to restructure and unify formerly apartheid institutions and achieve greater equity in social and economic opportunities.

In April 1994, landmark multi-racial elections resulted in the election of a new President and the creation of a Government of National Unity (GNU) - composed of Ministers from the three major parties. Shortly thereafter, President Mandela announced the GNU's ambitious Reconstruction and Development Program (RDP). The RDP identifies four broad areas of emphasis: Meeting Basic Human Needs, Developing Human Resources, Building the Economy, and Democratizing the State and Society. The United States is supporting the reconstruction and development process through a three year \$600 million commitment. The new government has an enormous task ahead of it, including: the reform of all Ministries and the civil service; establishment of a Constitutional Court; the reorganization of the country from a system of four provinces and ten "homelands" to nine provinces; the transformation of the health and education systems; and, the integration of millions of formerly disenfranchised citizens into the economic and social fabric of the nation. A well-functioning democracy and dramatic and sustained economic growth are key to meeting many of these challenges. Although South Africa has the largest economy in the region, it is just emerging from a recession and the effects of a prolonged struggle against apartheid. GDP growth is expected to be around 2-3% in 1995 and could reach higher levels in future years if political stability is maintained and renewed foreign investment is forthcoming. Growth, investment and economic assistance are needed to reduce the alarming poverty in South Africa. At present, approximately 40% of all South African households lack adequate housing, an estimated 49% lack safe water and 25% lack adequate sanitation. More than one third of the adult workforce is jobless, and more than 50% is functionally illiterate. If South Africa is to serve as a model for successful conflict resolution and reconciliation in the region, as well as an engine for rapid economic growth, these conditions must be improved.

## **Strategic Objectives (Sos).**

USAID is pursuing four strategic objectives in South Africa.

### **BUILDING DEMOCRACY (\$20,227,567).**

**SO 1. Disadvantaged population participates more fully in the political development and governance of a democratic, human rights-based South Africa (\$20,227,567).**

The basic structures needed to broaden and sustain a democratic political order in post-apartheid South Africa are an informed electorate; strong local governments; a just, accessible and transparent legal system; sustained respect for human rights; a civil society based on tolerance and acceptance of cultural diversity; institutionalized checks and balances, including alternative non-governmental mechanisms for articulating and promoting diverse points of view; accountability and transparency in public decision making; and representative, responsive, and effective governmental structures at national, provincial and local levels. SO 1 addresses these basic underpinnings of democracy, without which sustainable development in South Africa will not be realized.

**Activities.** The USAID program emphasizes helping the new government cope with these governance problems. Through the Transition Support Fund and the Community Outreach and Leadership Development (COLD) Projects, immediate and extensive support is being provided to national, regional and local governments in the form of technical assistance, training and observational tours in support of policy analysis, formulation and implementation. Specific support is also being provided in the area of administration of justice through the first bilateral project signed with the government. This program is unique in that it also involves non-government organizations (NGOs) as partners in an effort to overhaul the system. Throughout the period prior to the election, USAID developed a strong partnership with the South African and U.S. NGO community. USAID will continue to work with these groups and community-based organizations in areas of institutional development, civic education, mitigation of violence, conflict resolution and human rights. Putting democratic organizational practices into action, the Self-Help Support Project annually provides \$500,000 to small community organizations to address agreed-upon community development needs. USAID will also continue to work with the African American Labor Center to provide technical assistance and training for black South African trade unions in areas such as union organization and management, grievance processing, labor policy, collective bargaining, health and occupational safety.

**Related Activities.** Both the Governance Support Program and the Disenfranchised Youth Program are supported under the COLD Project in addition to other projects throughout the portfolio. These activities cut across the entire South Africa program, providing linkages between SOs. All housing and urban development projects have significant technical assistance components that focus on strengthening local government capacity to provide housing and urban services in collaboration with community-based organizations. Currently 63 community organizations are participating in the Shelter and Urban Development Support Project.

**Indicators.** Indicators measuring progress include: the percent of registered voters exercising that right and the number of NGOs working with USAID in the area of political development. By all accounts, the April national election was substantially free and fair with voter participation estimated at 86.5%. Given the greater resistance to change most observers perceive at the local level, the electoral processes surrounding the local government elections scheduled for the fall of 1995, including voter registration and turnout, will be a significant indicator of South Africa's progress in its democratic transformation. USAID has provided support under this strategic objective to over 300 NGOs, of which 10 are directly working in the area of political development.

**Feasibility and Cost-effectiveness.** The successful free and democratic national election of April 1994 attests to the feasibility of this strategic objective. Previously disenfranchised South Africans had less

than four months to become familiar with the principles and operational details of elections and representative government. USAID supported a massive effort to help educate the millions of new voters as to their responsibilities and rights prior to the elections. USAID has been a key player in the promotion of political and social change in South Africa since 1986 and has been in the forefront of empowering disadvantaged communities by supporting activities that promote democratic processes and provide assistance for leadership development to facilitate democracy. Many of the newly-elected leaders of South Africa have benefitted directly and indirectly from USAID's past investments in these activities. The costs of leadership development and promoting "voice and choice" for the disadvantaged communities (\$120 million over the past seven years) are small in relation to the benefits of having the majority community actively participate in a democratic political system.

Progress in 1993-1994. Over 150 grants to indigenous and U.S. NGOs have helped to establish a strong civil society and culture of accountability. They have also contributed to the quality of governance in the new South Africa. The persons and organizations who participated in the liberation and democratization movement regarded our programs as safe vehicles to express their opinions and catalyze wide-spread community action towards the realization of a free, democratic South Africa. About 50 former participants are now in responsible positions within the new government and will undoubtedly use their USAID-supported training to have substantial and broad influence on the development and implementation of the government's RDP.

Mission programs strengthened South Africa's first non-racial election by providing voter education through over 100 organizations that reached over 4 million disadvantaged South Africans and supported the coordination and deployment of over 30,000 local election observers and over 500 international observers. In addition, the Independent Electoral Commission (IEC) was given institutional strengthening technical assistance and an estimated 50 NGO leaders participated in the IEC and other transitional structures to successfully carry out a substantially free and fair national election. The result has been an unprecedented turnout of voters (19.6 million) with fewer than one percent of the votes invalid.

Mission programs have helped to create and strengthen a truly national network of human, civil and legal rights and democratic institutions. The Mission has helped assure fundamental civil and political rights by enabling NGOs to be directly involved with the restructuring of the South African judicial system, and by supporting a wide range of efforts to help create a culture of tolerance in the country, thereby helping to diminish the level of political violence. In 1993-1994, Mission programs supported more than 60 grassroots advice centers, civic organizations and others offering paralegal/defense representation, legal education and training, and community law centers.

In order to build the policy foundations for the new democracy, the Mission supported the establishment of policy-based think-tanks, conferences, workshops and fora to build economic, public administration and oversight capacity in the disadvantaged majority community in support of the RDP. USAID has also funded various workshops, observation tours and training courses for new national and provincial officials to facilitate effective governance.

Donor Coordination. USAID/South Africa has an excellent record of coordinating with other donors and has emerged as the leader of many coordination efforts. Related to this SO, particular attention has been given to donor coordination in the areas of Community Development and Land Tenure programs and the Strengthening of the Independent Electoral Systems. While the Canadians chair the donor coordination group in Public Administration and the British are increasing their involvement in Civil Service Training, USAID has been the most active donor in support of Public Administration and Governance and will play a leading role in the future in donor coordination.

Constraints. The new government faces major challenges during the first years of the new democracy. At the national level, a thin layer of new political leadership directs an entrenched, carry-over bureaucracy and presides over an extensive network of laws inherited from the apartheid regime.

At the new provincial level, new structures must be organized and institutionalized from a near zero base in some provinces. Policies, structures, institutions, laws and procedures governing fundamental social service delivery across the spectrum must be revamped, rationalized or established.

#### **ENCOURAGE BROAD-BASED ECONOMIC GROWTH (\$98,775,348).**

##### **SO 2. Help establish a more equitable and effective education system (\$41,000,000).**

Of all of the injustices of apartheid, none is more profound than the deliberate restriction of educational opportunities for the majority of South Africans, including black, colored and Indian. The inequalities resulting from years of inferior education will take decades to overcome. Democratic development requires an educated citizenry to direct and manage private and public institutions within a civil society.

**Activities.** This Strategic Objective is supported by four principal projects: South African Basic Education and Reconstruction (SABER), Education Support and Training (ESAT), Support to Tertiary Education (STEP) and Tertiary Education Linkages (TELP). Through these activities the Mission has assisted in developing a democratic, non-racial, compulsory, unitary education system in South Africa by developing and disseminating innovative educational models and policy systems which improve the quality of pre-primary and primary education for historically disadvantaged South Africans. Over 100 NGOs have been assisted in their efforts to support these programs. Specifically, the SABER Project is supporting the increased development and use of innovative educational models and policy systems that improve the quality of primary education through technical assistance to the government and support for NGOs working in primary education. The ESAT project supports indigenous non-governmental education providers in the development and testing of improved educational models, curriculum development and educational planning. Through STEP, human resources development is focused on immediate occupational needs. The emphasis is placed on professional and technical fields where members of the majority population are severely underrepresented. Finally, TELP is intended to assist in the transformation of historically disadvantaged universities and technical schools through targeted assistance in strategic planning and policy analysis, institutional capacity building and developing linkages with other South African and U.S. institutions of higher education.

**Related Activities.** It has been shown that the level of education has a direct link with several development indicators - economic prosperity, employment, family planning and infant mortality. Reflecting this, the activities under this SO are related across the board to USAID objectives, for example, training for civil servants, legislators, managers, civic and business leaders. Training is also provided to complement other efforts under the Disenfranchised Youth Program.

**Indicators.** Impact indicators for this SO aim at improving the statistics for non-white students and include the per capita governmental spending on white and black children, the white to black ratio for numbers of students per teacher and the percent of enrolled black children completing high school. South Africa allocated 21.4% of the national budget for education. Although this level of funding for education is within the acceptable upper range, the allocation of funding by race and ethnicity were not equitable. Manifestations of this inequity result in statistics such as the majority population having matric (high school proficiency exam) pass rates of 44% compared to 98% for whites. Overall, 14% of public education teachers did not have teaching qualifications, and 57% were under-qualified (i.e., did not have a matric with three or more years of teaching training). The vast majority of un- and under-qualified teachers are assigned to rural areas and previously designated homelands. However, reforms are moving apace. The new government has established policies to transform the educational system at all levels and has developed an action plan to implement this policy.

**Feasibility and Cost-effectiveness.** South Africa's educational system has traditionally been race and gender biased. This bias is gradually changing due, in no small part, to USAID's investment of approximately \$180 million in education over the past decade. USAID has provided disadvantaged South Africans with access to a quality education through scholarships. There are several hundred

students studying in the United States or at South African institutions. This massive training program has provided the new government with a significantly expanded pool of qualified leaders. Through a combination of projects, USAID has also assisted South African private and community-based organizations to develop improved models for basic education, strengthen the capabilities of black education NGOs, upgrade the qualifications of black teachers and school administrators, improve school management systems, reform educational curricula, and provide a better quality education for the disadvantaged majority of South Africans. This will complement the new government's emphasis on education and training for employment and alleviate somewhat the overall dearth of trained and qualified teachers, instructional facilities, textbooks and learning materials.

Progress in 1993-1994. USAID has funded the development of innovative curriculum design, educational materials, and other teacher training models in mathematics and science education, preschool and primary education, and innovative uses of technology in delivering instruction; some of these are now being used. The program laid an important foundation towards building a single assessment and accreditation system for South Africa through the Independent Examination Board and established a national forum for the nine historically black South African universities, identifying common problems and formulating a program for their development. A national forum for career counselling has also begun to address the lack of career counselling within the disadvantaged community. In the non-formal sector, USAID has developed post-secondary remediation, applied adult training models and techniques, and developed preschool preparation programs. Also, USAID provided short-term and long-term academic degree training, and career development fellowships to over 1,200 disadvantaged South Africans during this period.

Donor Coordination. Norway serves as the chair of the Human Resources Development donor coordination group. With USAID's considerable investment in this sector, it expects to play a key role in identifying strategic areas of cooperation within the donor community. USAID conducts periodic consultations with counterparts from various other donor agencies in order to compare assessments of funding proposals under consideration and to consider co-funding possibilities.

Constraints. The highly fragmented and wasteful educational system organized on racial lines which was imposed by the apartheid regime in South Africa will require years to transform. Changes will be needed at all levels, from basic education to post-graduate studies, resulting in the reform of the educational system itself and a more equitable distribution of educational resources. Tension exists between the need to increase access and at the same time enhance quality.

**SO 3. Increase opportunities for asset ownership and economic integration for the historically disadvantaged (\$57,995,348, of which \$49,400,348 is for Economic Growth and \$8,595,000 is for Protecting the Environment).**

The disparities in access to economic resources in South Africa are numbing. Average white incomes are six times that of blacks, three times that of coloreds and twice that of Indians. More than half of the majority population lives below the official poverty line. It will be impossible to establish and sustain a stable, democratic, post-apartheid South Africa if the majority population has so little stake in the country's economy.

Activities. Activities under this strategic objective focus on overcoming those legacies of apartheid which have barred South Africa's majority population from fully participating in the country's economy, especially private enterprise and home ownership. The program endeavors to creatively leverage local and international capital through loan guarantee arrangements, strengthen the indigenous business development organization sector and provide selective technical assistance and training. Efforts are focussed on developing replicable models for South Africans to emulate. In the post-apartheid era, there is now an opportunity to work with the South African Government (SAG) to ameliorate policies that have historically disadvantaged large segments of the population. To address private sector development, a three tier approach is being used that utilizes resources from bilateral, regional and

global sources. USAID/South Africa's Black Private Enterprise Development Project is providing technical assistance, training, credit and equity for micro/small and medium-sized enterprises, and on-the-job skills training for unemployed and marginalized members of the majority population. The project also is working in the formal economy to mainstream high potential black business, in the financial sector to encourage linkages between South Africa and the United States, and in the policy arena to strengthen the black private sector voice in national and regional economic policy formulation and implementation. The Small Business Loan Portfolio Guaranty Program (funded by the Global Bureau) provides a 50% guarantee through six privately-owned South African banks for small and micro-enterprise loans. Moreover, training is provided to banks and borrowers to introduce them to non-collateral based lending techniques. Finally, the regional Southern Africa Enterprise Development Fund, in which South Africa participates, will provide term debt and equity funds, as well as technical assistance and training to small and medium size firms.

The Shelter and Urban Development Support Project is increasing the role of community-based organizations in local shelter planning and development, strengthening black construction enterprises, increasing the supply of private sector financing for low cost housing and infrastructure and assisting in the development of affordable shelter solutions. This project complements three Housing Guarantee programs - the Private Sector Housing Guarantee Project, the Basic Shelter and Environment Housing Guarantee Project and the Municipal Infrastructure Project. The first of these projects is with private sector credit facilities. The second two will be with the SAG at the national and municipal levels.

Related Activities. Related to this SO is the Disenfranchised Youth Program carried out under the Community Outreach and Leadership Development project within SO 1. The program provides job skills training, social services, internships and business-oriented training as part of a secondary school curriculum. Under SO 2, 327 scholarships were provided for business and management training in the United States.

Indicators. Indicators for measuring increased opportunities for asset ownership and economic integration at the strategic objective level are: increased access to financial resources as measured by the number of banks making small business loans under the Small Business Loan Portfolio Guarantee (LPG) program and the numbers of mortgages issued to disadvantaged applicants. In FY 1994, two banks were added to the LPG program bringing the total to six. Over 4,800 mortgages were issued in FY 1994 under the Private Sector Housing Guaranty. USAID will also be monitoring improvements in the policy environment. In FY 1994 the SAG named a Standing Committee for Small- and Micro-Enterprise and various local authorities simplified licensing requirements, to name a few changes. In the housing sector, the Ministry of Housing issued a White Paper outlining its strategy for reconstruction and development and the National Housing Finance Corporation finalized its business plan. In both of these instances USAID provided technical assistance.

Feasibility and Cost-effectiveness. USAID's Black Private Enterprise Development Project has provided \$40 million over the past six years to assist historically disadvantaged South Africans to overcome the political, regulatory, social and attitudinal constraints that have stemmed from apartheid and serving to prevent their equitable participation in the South African economy as owners and managers of private enterprises. In part, as a result of USAID-funded interventions, the majority population's stake in the new economy is increasing, as was recently illustrated when a majority-owned firm made its debut on the Johannesburg Stock Exchange. The new government has made the mobilization of local resources for assistance to the historically disadvantaged segment of the private sector one of its priority objectives, and particularly targets financial institutions, directing them to provide their services to small and medium-scale, black producers, especially in the housing sector. USAID's investment of \$30 million since 1992 in support of the improvement, production and ownership of affordable shelter is expected to play a role in "kick-starting" the economy. Pent-up demand for housing is huge. Domestic financial resources exist for redressing the deficit in housing and improving the quality of existing shelter. USAID's Housing Guarantee programs are designed to domestic resources towards



these ends, by leveraging South African capital in a 2:1 ratio to provide construction and mortgage finance and to develop models for future lending programs.

Progress in 1993-1994. In FYs 1993 and 1994, some 9,445 microenterprises received loans from local organizations; providing added growth and increased employment many small majority-owned firms were assisted to expand their role in the mainstream economy; majority-owned construction firms were helped to expand their operations and assist in meeting the critical shortage of affordable housing in South Africa; more than 4,800 low income families obtained access to private sector financing for low-cost mortgages for basic shelter; and over 23,000 serviced sites were financed at locations throughout South Africa for purchase by the disadvantaged majority. The Mission recently conducted a financial sector analysis which is helping determine how to address the financial and capital needs of the disadvantaged business sector. A private sector strategy and a set of tactics to guide future programming are being prepared.

Donor Coordination. USAID chairs both the Private Sector and Housing donor coordination groups. Other key participants are the World Bank, the European Union and the British Overseas Development Administration, all of whom are providing assistance in this sector.

Constraints. Business success hinges on the extent to which a favorable business climate can be created. Black businesses have been historically discriminated against on five counts: Regulations prohibited or hindered the development of non-white businesses; the educational system was premised on inferior education for blacks; lack of proper skills limited access to and appreciation of new technologies; the formal banking system ignored the majority population; and the concept of capitalism was equated with apartheid. All of these factors must be addressed to effect long-lasting, economic empowerment of the disadvantaged majority in South Africa.

**SO 4. Support Development of a System Providing Integrated Primary Health Care Service to the Majority Population (\$12,655,327 of which \$8,375,000 is for Economic Growth and \$4,280,327 is for Stabilizing Population Growth).**

Problems related to child survival, human development, HIV/AIDS, and tuberculosis, frequently addressed throughout primary health care, are as serious for the underserved population in South Africa as for the populations in other sub-Saharan countries. Activities under the strategic objective will be developed during FY 95. Activities will focus on restructuring, strengthening coordination and increasing efficiency and effectiveness of the public-sector health care delivery system. This is a new strategic area for USAID/South Africa. The new South African government is committed to the resolution of long-standing inequities in the delivery of health care to the disadvantaged population, including access to family planning. In FY 1995, in consultation with the government and NGO community, USAID designed a new project which will begin in early FY 1996. The project is intended to support the government's efforts to restructure the health system (focusing on "test" provinces) to be more efficient and effective, and better able to provide essential, equitable, quality health services to the entire population.

Activities. This SO is supported by one project: Equity in Integrated Primary Health Care (EQUITY). Through this activity in a "focus" province, the Mission proposes to increase access to an integrated package of primary health care (PHC) services; put into place an effective referral system; enhance the capacity to manage the integrated PHC program; increase efficiency and effectiveness of PHC service delivery; institutionalize the capacity for PHC training; and develop an improved information base for decision making, program implementation and management. Project implementation in the "focus" province and lessons learned will be used as a model for primary health care services delivery in other provinces of South Africa.

Related Activities. This project is the Mission's first comprehensive health program. Since 1992 the Mission has had an HIV/AIDS prevention program under the Community Outreach and Leadership

Development (COLD) Project, funded at approximately \$3.5 million per year. Due to the restrictions of the Comprehensive Anti-Apartheid Act of 1986, as amended. USAID was prohibited from working with the government or any organization funded or controlled by the government. Therefore, the HIV/AIDS prevention program was implemented entirely through non-government organizations. Currently, under the South African Democratic Transition Support Act of 1993, USAID can undertake direct project activities with the Government.

Impact Indicators. Impact indicators will include increases in the number of sites with integrated packages of services (including family planning), referral systems developed and implemented, clients referred, and training curricula designed and implemented.

Progress in 1993-1994. The project is in the design stage.

Feasibility and Cost-effectiveness. Genuine political goodwill to focus attention and resources on providing integrated primary health care to the previously underserved populations exists in South Africa. The Government of National Unity (GNU) is undertaking analysis and policy discussions with grassroots women's organizations, health workers, academics and policy makers, with the most recent political discussions being a women's health policy conference held in December 1994. The GNU is committed to addressing the underlying socio-economic and behavioral determinants to produce positive health outcomes. The economic analysis for the Project Paper will more clearly identify the costs of increasing the coverage of South Africa's health care system. A cost recovery/user fees effort will ease the need for budgetary increases. User fees have proven crucial in other health systems for maintaining an efficient, effective and consumer-driven health system. For these reasons, the project will be prepared to assist the government in examining issues and options surrounding health care financing in order to promote a sustainable and equitable system.

Donor Coordination. During the apartheid era, virtually no international or bilateral donor agencies supported health programs in South Africa. Since 1992, the majority of current activities are in the form of program planning and research rather than active interventions. The Kaiser Family Foundation is supporting an excellent program of research focusing on health systems management and primary health care, and is preparing to conduct a nationwide survey on access to health care. The initial work of the United Nations International Children Emergency Fund (UNICEF) and the World Health Organization (WHO) has concentrated largely on agreements and protocols, and their programs probably will focus respectively on children and women, and primary health care. The European Union (EU), one of the largest potential donors in the sector, is developing support for a large-scale program of training for district primary health care workers, and is equally interested in the areas of family planning, and STD/HIV/AIDS. The British Overseas Development Administration (ODA) is also working with the SAG to develop an overall management strategy for the health sector, and plans to begin work in early 1995. The Japanese Government is planning to provide health care buildings and medical equipment in three provinces. Other governments will be providing funding on a much smaller scale, probably concentrating on the government priority of primary health care. Since most of these activities are in the planning stages, it will be necessary to actively exchange information with other major donors during the conduct of project feasibility studies. Of the donor organizations identified above, the most important for collaboration are the Kaiser Family Foundation, the EU, and ODA. Preliminary discussions have already taken place, and coordination will continue to ensure that available resources will be used effectively in meeting South Africa's health needs.

Constraints. The South African government has initiated the restructuring process. This includes developing a single National Department of Health from 14 separate departments under apartheid. The restructuring also includes developing the nine provincial departments, including the linkages between these departments and the district level health authorities. Very substantial progress has already been made by the strategic management groups who have undertaken these complicated tasks. Additional work to be completed includes defining the boundaries of districts, defining and then setting up the new or changed administrative structures to accommodate restructuring. These structures include

equitable personnel systems, staff training, and reallocation of resources. Clearly, the continuing government efforts at restructuring are going to be demanding and complex. If the government is unsuccessful in aggressively launching restructuring at the national, provincial and district levels, the assistance and potential impact of the EQUITY Project could be severely limited.

#### **PROTECTING THE ENVIRONMENT (\$8,595,000).**

Under SO 3, USAID will also be carrying out a number of environmental activities under the aegis of its housing and urban development sector projects. Given the urban setting, these activities will address pollution and overuse as opposed to "green" environmental issues. Relevant project components include: provision of potable water; sewerage and storm water drainage; supply of electricity for heating and light; and road paving. These activities will contribute significantly to lowering air and water pollution levels, decreasing erosion, helping preserve forests and improving the health and wellbeing of occupants in low-income urban areas.

#### **OTHER DONOR RESOURCE FLOWS.**

In FY 1993, the United States, providing 19% of total Official Development Assistance (ODA) disbursements and 24% of total ODA commitments, was the largest bilateral donor and the second largest donor overall. Other major donors are the European Union, Sweden, the United Kingdom, Germany and Denmark.

**SOUTH AFRICA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Majority population participates more fully in the political development and governance of a democratic, human rights based South Africa.	--	--	--	20,227,567	20,227,567
2. Help establish a more equitable and effective education system.	41,000,000	--	--	--	41,000,000
3. Increased opportunities for asset ownership and economic integration for the historically disadvantaged.	49,400,348	--	8,595,000	--	57,995,348
4. Support development of a system providing integrated primary health care services to the majority population.	8,375,000	4,280,327	--	--	12,655,327
<b>Total</b>	<b>98,775,348</b>	<b>4,280,327</b>	<b>8,595,000</b>	<b>20,227,567</b>	<b>131,878,242</b>

USAID Mission Director: Leslie A. Dean

## TANZANIA

FY 1996 Development Fund for Africa Request: ..... \$38,329,262  
FY 1996 Development Assistance Request: ..... \$4,303,000

Although extremely poor, Tanzania remains one of the most politically stable and economically promising countries in Africa. Progress in economic reforms since 1986 has led to significant results. The U.S. foreign-assistance program in Tanzania recognizes the country's role and position as a stabilizing influence among some of its troubled neighbors. Tanzania is part of two major international initiatives: the Greater Horn of Africa Initiative and the Initiative for Southern Africa, which are intended to assist both the eastern and southern Africa regions to overcome poverty, conflict and ethnic strife and put themselves on the path to sustainable development. The proposed assistance program in Tanzania promotes U.S. national interests through: 1) support for a moderate and stabilizing country at the crossroads of East and Southern Africa, 2) the creation of a modern economy with democratic institutions which reflect the aspirations of the people; and 3) investments in economic growth and well-being which reduce poverty and raise incomes and create potential markets for U.S. goods and services.

### **The Development Challenge.**

The development challenge in Tanzania is understood by the government and most donors: to move the economy from 25 years of near-total state direction and control to an enabling environment conducive to the development of strong private-sector activity. The per-capita annual Gross Domestic Product (GDP) of \$120 makes Tanzania one of the poorest countries in Africa and in the world, severely limits domestic investment, and encourages dependence on external assistance. Nearly 80% of the population is rural. However, agriculture supplies less than 50% of GDP, due largely to inadequate infrastructure, which hampers the efficiency of the rural productive base and magnifies the cost of inputs. Recurrent droughts and periodic refugees from troubled neighbors force Tanzania to import food, in an age when world market prices for traditional export crops (coffee, cotton, cashews) are relatively low. An estimated 60% of the 26 million population is under age 25, the group most vulnerable to Tanzania's raging Acquired Immune Deficiency Syndrome (AIDS) pandemic.

Yet Tanzania is rich with promise and possibility. Despite inefficiency and a continuing need for reform, there has been progress in establishing a strong private sector. This is illustrated by an average annual GDP growth rate of 4.0% which is encouragingly above the high population growth of 2.8%. Basic natural resources abound: a highly literate population is united by one common language; major natural ports exist along the 400-mile coast of this largest country in East Africa; more than sufficient thermal and hydro-energy pools remain unexploited; animal wildlife is the most varied and abundant in the world; and only one-quarter of the productively arable land is cultivated. Eight years of economic and political reform have removed many vestiges of a generation of socialism and one-party rule, opening the door for private-sector-led progress.

U.S. assistance is focused on rebuilding the financial and physical infrastructure necessary for private-sector entrepreneurial capacity and confidence, both urban and rural. Economic gains from this orientation towards the private sector are being safeguarded through improved AIDS control, population planning, better planned use of natural resources and enhanced civic education in support of improved governance.

### **Strategic Objectives (SOs).**

USAID is pursuing three strategic objectives in Tanzania. Additionally, the program consists of important activities in training, natural environment and civic education, which cut across sectoral boundaries to promote achievement of these strategic objectives.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$25,238,817).**

### **SO 1. More effective infrastructure services delivered (\$8,980,000).**

An adequate physical infrastructure is essential to all economic activity in this largest country with the least dense and most widely dispersed population in East Africa. Lack of urban-rural telecommunications reinforces limitations imposed by a severely deteriorated road network. These infrastructure needs discourage foreign and domestic investment, constraining economic growth. USAID activities under this SO have a direct effect on rural incomes, national food security, the distribution of economic and governance information, and the availability of health-enhancing materials and information.

**Activities.** Activities will continue to support opportunities for increased employment and incomes, primarily in rural areas. The Agricultural Transport Assistance Program (ATAP) will continue to utilize local-currency generations to finance private-sector contractors in rehabilitating and maintaining rural roads; technical and material assistance provided through the centrally-funded Housing and Urban Development Project is guiding the National Housing Corporation in privatizing its widely-dispersed inventory of 25,000 real properties; and the Rural Telecommunications project will assist in attracting a U.S. telecommunications firm to establish a fully private, commercially-viable, self-sustaining rural telecommunications company to support every aspect of social and economic activity, including linking rural agricultural-production areas with urban traders to facilitate exports and improve distribution to domestic food-insecurity areas.

**Related Activities.** The provision of complementary technical training in supportive public- and private-sector institutions is enhancing domestic capacity to sustain these infrastructure improvements.

**Indicators.** The indicators for measuring progress toward achieving this objective are to: (1) increase the total kilometers of rehabilitated roads from zero in 1990 to 1000 kilometers in 1996; (2) increase the population served by rehabilitated all-weather roads within the zones of influence from zero in 1990 to 235,000 in 1996; and (3) reduce freight-haulage costs by 22% on USAID-funded rehabilitated roads by 1996.

**Feasibility and Cost-effectiveness.** Deteriorated or nonexistent physical infrastructure discourages investment, restricts economic growth and eliminates opportunity for individual advancement. Key infrastructural improvements in rural roads and rural/urban telecommunications will connect an increasing share of the rural population to major urban installations being implemented through other-donor programs. USAID efforts at the rural level are being achieved through policy reform, institutional strengthening, and the provision of foreign exchange for import financing and local currency to finance private-sector contracts for rehabilitation and maintenance. The emphasis on demonstrating how specific public services may viably be provided by the private sector is increasing private-sector capacity and efficiency. Rural road rehabilitation is targeted to promote a 22% reduction in freight-hauling costs. The policy dialogue, backed up by \$500,000 in technical and material assistance to the National Housing Corporation, promotes privatization in this sector, leading to the availability of these assets as collateral for an indeterminate level of domestic investment.

**Progress in 1993-1994.** In 1990, USAID introduced socio-economic baseline surveys for areas of upcoming road rehabilitation to measure impact. That practice has gradually been adopted by the Government and other donors, and in 1993 it was incorporated into the Tanzanian Ministry of Works manual for its Rural Roads Program. In three years, the freight costs per metric ton per kilometer have been reduced over 11% for about \$20 million worth of agricultural production hauled over 488 kilometers of USAID-rehabilitated roads, benefitting more than 180,000 rural inhabitants residing within the limited zones of influence. Program sustainability is developing simultaneously as the Government of Tanzania collects an increasing share of maintenance costs through user fees.

**Donor Coordination.** Fifteen donors, including USAID, are involved in promoting rehabilitation and maintenance of rural roads. Donor coordination in this area has improved efficiency and transparency in Government contracting procedures; the use of indigenous private-sector contractors for nearly all rehabilitation and maintenance work; and program sustainability through increased Government reliance on user-generated road taxes. In the telecommunications sector USAID assistance is provided within the framework of a major multi-donor program to the Tanzanian Government's Telecommunications Restructuring Program, with overall funding commitments of about \$250 million. Participating donors include the World Bank, African Development Bank, the European Union, Denmark, Sweden, Japan, Kuwait and Belgium. USAID's unique involvement was welcomed because it promotes private-sector involvement and benefits for the rural population.

**Constraints.** Tanzania's local private construction industry is in its infant stage and lacks experience in delivering efficient and effective services. Additionally, the industry and the economy lack capital for equipment and operational costs. Lack of reliable construction insurance also retards the industry's development. In the telecommunications area, official Government policy encouraging investment is neither well understood nor accepted by all implementing agencies, leading to delays and confusion that discourage investors. The housing privatization effort can be limited by a continued shortage of private savings and viable financial institutions to provide capital for home financing.

**SO 2. Increased formal private-sector participation in the economy (\$4,907,937 of which \$2,010,000 is for Economic Growth and \$2,897,937 is for Building Democracy).**

Twenty-five years (1962-1987) of comprehensive and experimental socialism in Tanzania eliminated private-sector activity from the open formal economy and it survived only in rural agricultural areas or the small informal sector. Currently, the pro-business policy of the Government has created promising opportunities for formal private sector growth, the skills for which must be relearned by a new generation of indigenous entrepreneurs. The policy and legal stages have been set through extensive reform efforts, although actual implementation remains in an early stage. The availability of capital for investment, and technical and managerial skills, are particularly limited.

**Activities.** Activities under this objective address practical impediments in financial and business development, the policy constraints which inhibit private-sector growth and productive employment, and emphasize rebuilding the financial sector. Project interventions were originally identified through close collaboration with a private-sector advisory group of local entrepreneurs, and closely complement Government and other donor efforts dismantling the parastatal economy with its remaining 400 enterprises.

USAID is providing private business-support services through a Business Services Center (BSC), Tanzania's first Venture Capital Fund (VCF), and a unique \$36 million Social Action Trust (SAT). The SAT is simultaneously providing local currency for private-sector investment and utilizing the profit for grants to Non-governmental Organizations (NGOs) working to alleviate the problems of orphans, primarily the result of the AIDS pandemic. The BSC will expand its services into rural areas in 1996 and begin training in financial services for rural entrepreneurs.

A micro-enterprise credit activity will start in 1995 in response to feasibility studies that confirm the necessity of providing financial services at the micro- and small- business levels. Implementation studies are underway to involve the active participation of a local bank. Complementary efforts through formal training are improving managerial and technical skills among staff in financial and other supportive institutions, and making it possible for increased accountability in the public and private sectors, thus enhancing the overall environment for better governance and continued expansion of private-sector growth, formal and informal.

**Indicators.** The indicators for measuring progress toward achieving this objective are: (1) the number of clients served at the BSC and the VCF; and (2) the number of new employees generated directly by firms utilizing the services of the BSC and the VCF.

**Feasibility and cost-effectiveness.** The individual components of each activity in this SO respond to needs identified by private-sector entrepreneurs, i.e., Tanzanian entrepreneurs willing to pay for the services to be provided by these activities. Except for some of the classroom training being provided, every other component of the program herein depends upon private-sector demand and willingness to pay for those services. Competition and marketplace demand for cost-effectiveness will determine the continued provision of services under this SO. Studies being conducted with local Chambers of Commerce are providing recommendations for increasing management efficiency while reducing costs and the opportunities for corruption.

**Progress in 1993-1994.** The Central Bank has withdrawn from commercial banking activity and improved its monitoring capabilities. New private commercial banks have been licensed, one of which opened in mid-1993, and two others in 1994, with licenses granted to other financial institutions in 1994. Tanzania's first Venture Capital Fund officially opened its doors for business in October 1993, and has already attracted \$8.5 million from a mix of NGO and private investors. The World Bank and Norway are now considering replication of the venture capital approach. The move toward privatization has also included Government completion of the necessary groundwork for a private-sector insurance industry, the introduction in 1994 of market-based interest rates, and an inter-bank foreign-exchange-rate system. As a result, there are larger numbers of firms and individuals that are now being served by the BSC and the VCF.

**Donor Coordination.** The 1994-1997 Policy Framework Paper (PFP) agreed to by the Government and World Bank/International Monetary Fund (IMF) for a structural adjustment program provides an extremely comprehensive framework within which donors can work productively to strengthen the financial sector. Donors, including the World Bank, the United Nations Development Program, the IMF and France, are taking steps in this direction. The PFP also provides a sound framework for policy and practical support to private-enterprise development. USAID is the only donor which is approaching the issues through solutions at the banking level.

**Constraints.** Political and economic reform has thus far been largely managed by the ruling party, through the Government. Recent events suggest that the Government may be increasingly reluctant to respond to further pressure for reform. Entrenched bureaucrats protecting the status quo and preparations for the general elections in October 1995 may slow the pace of reform. USAID plans to utilize training resources to address economic growth needs, particularly the shortage of managerial and technical skills for personnel in a variety of financial institutions and the private sector.

**SO 3. Increased use of family planning and HIV/AIDS preventive measures (\$18,869,325, of which \$12,048,817 DFA is for Economic Growth and \$6,820,508 --\$2,517,508 DFA and \$4,303,00 DAF-- is for Stabilizing Population Growth).**

The Tanzanian population is growing faster than employment in the formal sector, and population growth has already outstripped Government capacity to provide adequate health and education services. Moreover, an estimated 5% of the total population is HIV-positive and concentrated within the most productive groups in society. Relying on greater use of the private sector and NGOs, USAID's family-planning endeavors focus on lowering fertility, while the HIV/AIDS effort seeks to prevent the spread of AIDS and lessen its impact, especially on orphans.

Relying on NGOs and the private sector, as well as public-sector institutions, USAID has identified lower fertility and AIDS prevention as ways it can contribute to stabilizing population growth and contributing to economic growth in Tanzania. Lower fertility is linked with lower population growth (through lowering of the crude birth rate) and better health for both mothers and infants. Practice of



AIDS preventive measures assures that the most productive age group--working-age adults--will not die prematurely, hence affecting the quality and quantity of the workforce and further increasing the dependency ratio.

**Activities.** USAID's newest activity in this area, the Tanzania AIDS Project (TAP), is educating high-risk groups about the dangers of AIDS, and promoting the distribution of condoms. TAP seeks to stimulate growth of an indigenous NGO response to the AIDS pandemic through expansion of prevention activities and education, and provides help to the victims and survivors of AIDS. Project sustainability is promoted through creation of a private-sector-based marketing and distribution system for condoms and other health products. Formal and on-the-job training is enabling Tanzanians to manage programs without external assistance.

In the population/family planning area, the Family Planning Services Support Project (FPSS) provides funds and technical assistance to: train clinic-based service providers; promote community-based distribution; develop a network of clinics providing long-term and permanent methods of contraception; provide contraceptive commodities and vehicles for transport and supervision; and support a wide variety of information/education and communication activities. Additional studies contributing to the population data base will include an appraisal of the efficiency of private health activities. Another study will help the Government determine the recurrent budget costs required to support family planning and AIDS prevention programs. National-level Demographic and Health Surveys and other studies will provide information for both AIDS and population progress.

**Indicators.** The indicators for measuring progress toward achieving this objective are: (1) lowering the infant-mortality rate; (2) lowering the child-mortality rate; (3) an increased use of family planning and HIV/AIDS preventive measures as measured by modern-method contraceptive prevalence (CPR), estimated to be 13.4% in 1994 for married women; and (4) increased condom use.

**Feasibility and Cost-effectiveness.** These programs work and are effective because: (1) the Government strongly supports enlightened population and AIDS-prevention policies; (2) both programs are well integrated into the existing structure of public and private facilities; (3) the approach in the population area has been to train local managers, service providers and other professionals so that the need for outside technical assistance decreases; and (4) in the AIDS area, innovative work in social marketing is informing people about AIDS through a for-profit distribution system to recoup some costs and increase accessibility of AIDS-prevention commodities.

**Progress in 1993-1994.** The final report for the Tanzania Demographic and Health Survey (TDHS) was released by the Government in May 1993, and the Family Planning Situation Analysis (FPSA) was released by the Ministry of Health in August 1993. Another national Knowledge/Attitudes/Practices survey was conducted in 1994 with very promising results. These mark the beginning of an era for the National Family Planning Program because credible and necessary baseline data are now available for sound policy decisions and for monitoring the program.

Improved logistics is playing an important part in advancing the spread of relevant information and the availability of services through transportation equipment provided by USAID. The use of contraceptives (CPR) has doubled from 7% to 13% (modern methods) and from 10% to 20% (all methods). A system for training trainers and service providers has been put into place, and the choice of contraceptive methods, including permanent methods, has been widened. In the AIDS area, all regions of the country have been assessed for the potential of NGOs to participate in AIDS-prevention activities.

**Donor Coordination.** The United Nations Family Planning Association is the only other significant donor presently active in the population sector. However, USAID has encouraged other donors, notably the United Kingdom and Germany, to make significant contributions of contraceptives. In the area of AIDS, most of the major donors in Tanzania have recognized the severity of the epidemic and have

assisted to combat the pandemic. Major programs are financed by Denmark, United Nations agencies, the European Union, the United Kingdom, the World Health Organization, Sweden, Norway, Belgium and the World Bank. AIDS donor-coordination meetings occur more frequently than the scheduled quarterly donor meetings.

**Constraints.** Constraints to success are mainly financial and administrative. Interest in practicing modern child-spacing methods, increased concern about HIV/AIDS, and an ability to deliver more effective family-planning and AIDS services mean that program success is generating a need for more donor funds. While the Government of Tanzania has begun to solicit other donors, overall funding remains short. Another constraint is the ability of the Tanzanian infrastructure to manage programs effectively. Both the Government and NGOs have limited staff.

#### **PROTECTING THE ENVIRONMENT (\$7,075,000).**

**Natural Resources Management.** In addition to the objectives discussed above, USAID will build on assistance provided in recent years for policy reform by the Wildlife Division of the Ministry of Tourism and Natural Resources which was channeled through the African Wildlife Foundation and the World Wildlife Fund. That earlier assistance has improved management planning and practices among Tanzania's wildlife authorities, made possible a comprehensive review of each component of the wildlife sector, and will form the foundation of a community-based conservation activity to focus on preservation and economic utilization of Tanzania's diminishing wildlife resources.

A complementary, larger activity, Sustainable Environmental Resources through Participation (SERP), will provide a coherent program of assistance in 1996 incorporating food security and environmental concerns. SERP will include policy and institutional reforms and community development, to create conditions where participatory and sustainable water-systems management can exist. Small-scale irrigation rehabilitation based on community participation will be combined with catchment and natural-resource protection activities. USAID plans to expand this enlarging body of environmental activities into a strategic objective.

#### **BUILDING DEMOCRACY (\$3,497,937).**

In addition to \$2,897,937, as discussed under SO 2, above, USAID's Governance in Tanzania project will support Agency governance objectives with assistance in the amount of \$600,000 through a civil society strategy based on improving the administration of justice, the quality of public media, the effectiveness of key voluntary organizations, and the depth and breadth of civic education activities. Other democracy/governance activities include training and institutional development which will help build the capacity of local organizations and constituencies to participate in reform efforts.

#### **Cross-cutting Issues.**

##### **Human Resources Development (\$ 2,800,000)**

USAID will continue to support the leadership and management training of Tanzanians in an effort to strengthen a more open and democratic society. Specific training will concentrate on leadership skills with a particular focus on democratic governance.

#### **Other Donor Resource Flows.**

In FY 1993, the United States provided about 3% of all donor assistance to Tanzania. Other major donors are: United Nations agencies, World Bank, IMF, the European Union, Denmark, Norway, Sweden, Japan, the Netherlands and Germany.

**TANZANIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. More Infrastructure Services Delivered.	8,980,000	--	--	--	8,980,000
2. Increased Private Sector Participation.	2,010,000	--	--	2,897,937	4,907,937
3. Increased Use of Family Planning and HIV/AIDS measures.					
Dev. Fund for Africa	12,048,817	2,517,508	--	--	14,566,325
Dev. Assistance Fund	--	4,303,000	--	--	4,303,000
Cross-cutting Issues:					
Natural Resources Management	--	--	7,075,000	--	7,075,000
Human Resources Dev.	2,200,000	--	--	600,000	2,800,000
<b>Total</b>	<b>25,238,817</b>	<b>6,820,508</b>	<b>7,075,000</b>	<b>3,497,937</b>	<b>42,632,262</b>

USAID Mission Director: Mark G. Wentling

## UGANDA

**FY 1996 Development Fund for Africa Request: . . . . . \$38,531,278**  
**FY 1996 Development Assistance Request: . . . . . \$7,135,000**  
**FY 1996 P.L. 480 Title II Request: . . . . . \$3,731,000**

Uganda, one of the world's poorest countries, suffers from many of the ills that affect Africa, including inadequate institutions and social services plus low economic productivity. These general maladies were substantially exacerbated by the political chaos and physical violence of the 1970s and 1980s. In spite of these difficulties, Uganda has managed to achieve a reasonable measure of stability. The emergence of a democratic constitutional process has begun and for the first time in over fifteen years, Uganda is enjoying economic growth and some prosperity. The USAID program has played a vital role in Uganda's political and economic transformation. The major focus of the USAID program, broad-based economic growth, is also important in the larger context of the Greater Horn of Africa. Uganda is currently a major source of food in the Greater Horn. Only through political stability and economic growth can the Greater Horn countries become self-sustaining and avoid recurring cycles of famine and other disasters. The U.S. assistance program supports U.S. interests by promoting free-market development and an evolving democratic governance that will help to ensure stability, economic growth and constitutional democratic reform in Uganda.

### **The Development Challenge.**

Uganda has a low life-expectancy rate and a low per-capita gross domestic product (GDP) of \$170. Of children who start primary school, only one in five completes grade seven. Despite such negative social indicators, since assuming power in 1986 the National Resistance Movement government has reversed the downward spiral by liberalizing the economy, improving social services and democratizing the political system. The most dramatic event of the past year, the first free and fair election in the history of Uganda, selected a constituent assembly to draft and ratify a new constitution. Several other equally important events took place including: the continued growth of the economy at more than 4.5%; demobilization of 23,000 soldiers (approximately 1/3 of the Ugandan army); and a 10% increase in farmer incomes. Uganda's economy continued to grow at a solid pace. The overall economy grew by 4.5% in 1993/94, a slower rate of growth than the 7.0% rate registered in 1992/93 because of poor rains, and total agricultural output grew by 1.7% in 1993/94, declining from the 9.2% growth rate in 1992/93 for the same reason. Reforms already implemented which have influenced these positive indicators include: freeing prices and the exchange rate; removal of most non-tariff trade barriers; lowering of tariffs and streamlining of import procedures; implementation of a new investment code; return of expropriated Asian properties; reorganization of revenue collection; and civil-service reform. A new constitution is expected to be ratified by July 1995. Presidential and parliamentary elections are scheduled for December 1995. Significant development challenges remain, but sufficient progress has been made to state that the completion of the transition to a free-enterprise, constitutional democracy is in sight.

### **Strategic Objectives (SOs).**

USAID/Uganda is pursuing four strategic objectives which fit within three of the Agency's four strategy areas. In addition, the program also supports activities in education and training designed to develop Ugandan civil society.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$31,700,062 of which \$27,665,062 DFA and \$4,035,000 DAF).**

**SO 1. Increase rural men's and women's incomes (\$10,482,000 of which \$10,247,000 DFA and \$235,000 DAF).**

Approximately 90% of Uganda's population lives in rural areas, is employed in the agricultural sector and is producing nearly 90% of the country's GDP. In addition, all of Uganda's exports are agriculture-based. USAID's objective is to raise currently low income levels by concentrating on increasing labor productivity. Improvements in productivity will increase the volume of goods available domestically, improve the capability of Uganda to service external debt, and pay for necessary imports. Achieving this objective is an essential condition for improving the lives of Ugandans.

**Activities.** Assistance under this SO includes activities which: 1) support the development of agricultural products for export to other African countries and European markets; 2) create and expand small businesses and micro-enterprises; 3) encourage the improvement of the policy and regulatory environment; and 4) assist small farmers and entrepreneurs in obtaining credit from local sources. They also include training, where appropriate, and concentrate on the major problems which inhibit growth and productivity in Uganda's private sector and expansion of its markets for exports, especially non-traditional agricultural exports (NTAEs). Other activities include providing assistance to develop Uganda's edible oils industry.

**Indicators.** Two indicators will be used to measure progress towards achieving this incomes objective: (1) an annual 3.5% increase in average rural household expenditures; and (2) an annual 20% increase in total returns to rural producers' labor from major NTAEs.

**Feasibility and Cost-effectiveness.** Uganda is well situated to encourage the development of a vibrant commercial agricultural-export economy. It has fertile soils, reliable rains, and a climate that is suited to the production of abundant temperate and tropical crops. Exports of high-value, agricultural commodities to European markets have proved feasible in small-scale trials, and analysis suggests strong potential for expansion across a wide range of commodities. Uganda's comparative advantage in food-crop production in the Greater Horn provides a major opportunity. The market for food crops in Africa is substantial; for example, USAID's \$25 million investment through the Investment in Developing Export Agriculture (IDEA) project is designed to boost the production of corn, beans, spices, flowers and vegetables with an internal rate of return of 93%. It is anticipated that NTAEs, which totalled \$37.7 million in 1991, will exceed \$100 million by 1997.

**Progress in 1993-1994.** Total returns from NTAE commodities to rural producers increased by an average annual rate of 30% in real terms over the past three years, or about ten times the growth rate of per-capita GDP during the same period. Simultaneously, there was an 11% increase in NTAEs, reaching \$60 million in 1993. These are both positive, encouraging indicators. In 1989, there were only three such commodities; in 1993, there were nine. Approximately 10,000 farmers are involved in programs designed to increase production of these commodities. Women farmers play a particularly significant role in their production, and have benefitted by gaining a degree of control over money which they have not previously had. For example, since 1991, women vanilla farmers have seen incomes increase by 40%. One result is that household expenditures for school fees, medical care and food have increased by 35%.

**Donor Coordination.** Donor coordination is excellent and reflects a consensus on the validity of USAID's approach. On agricultural exports, USAID is working with the European Union, the International Bank for Reconstruction and Development (IBRD), and the Netherlands Government. The IBRD plans to initiate a program that will complement the Private Enterprise Support Training and Organizational Development project.

**Constraints.** Instability in the region has the potential to spill over into Uganda and disrupt regional trade. A strong infrastructure needs to be built and maintained. The standards of the export market are high, and many African farmers and exporters initially have trouble meeting international standards. Other constraints include the lack of facilities to process primary agricultural products into finished products and a land tenure system which often leaves farmers without clear title to their land.

**SO 3. Improve the quality and efficiency of basic education (\$14,750,000 of which \$14,300,000 is Development Fund for Africa Funds and \$450,000 is Development Assistance Funds).**

Rebuilding the education sector is a vital element in Uganda's quest for an economically viable, democratic society. Although the adult-literacy rate is estimated at 48%, down from 60% a decade ago, it is still the lowest in east and southern Africa. USAID is supporting far-reaching reforms in primary education aimed at raising quality and increasing equity in the system.

**Activities.** The USAID Education Reform program is designed to increase the professionalism and skills of primary-school teachers by providing teacher training and improving teacher salaries. It also provides appropriate instructional materials and improves access for disadvantaged groups, especially girls.

**Indicators.** Indicators, focussing on long-term gains in student achievement, include: (1) increasing the percentage of pupils who pass grades 1-7; and (2) decreasing the number of school-years provided per primary-school graduate. Even small decreases in repetition and drop-out rates yield big savings that can be used to improve quality and expand access.

**Feasibility and Cost-effectiveness.** There is a high degree of inefficiency in Uganda's primary-education system. To illustrate, because of high drop-out and repetition rates, for each 1992 graduate of seven years of primary education, Uganda actually expends resources equivalent to 32 years of schooling. Consequently, Uganda cannot afford to educate all of its children: only 53% of school-age children were enrolled in 1992. The cost-effectiveness of basic-education reforms lies in the wide margin of gains that can be realized in reversing these inefficiencies.

Program feasibility is evident in the comprehensive nature of Uganda's Primary Education Reform Program, the high degree of collaboration among the Government of Uganda (GOU), USAID, the World Bank and other donors, and the availability of resources to encourage a systematic approach aimed at reversing decades of decline in the educational sector. To date, the key to success of the program is measured by the GOU's commitment to increased spending on education, a sector in which politically difficult reforms are needed. Education expenditures increased from 18% to 23% of the recurrent budget during the 1990-1993 period, surpassing spending on the military for the first time in 20 years. In three of the last four years, the proportion budgeted for primary education also rose.

**Progress in 1993-1994.** Primary-education reform was launched in August 1993. By December 1994, tangible improvements were evident throughout the system: teachers' salaries had moved halfway to the defined minimum living wage; the GOU was allocating funds for instructional materials and had placed orders for 716,000 core textbooks; and 100 primary schools were awarded competitive grants to encourage girls to attend school. An in-service training system to upgrade over 30,000 untrained teachers was launched. Construction of over 3,000 classrooms has started, administrative-oversight procedures are being reinstated, and reform of the examination system is underway.

**Donor Coordination.** USAID's Education Sector Reform program has leveraged an additional \$60 million from the World Bank. Joint conditionality and a unified Primary Education Reform Program management structure have created a dynamic partnership that is a model of effective donor collaboration.

**Constraints.** A key constraint to the success of these basic-education reforms, particularly in terms of their sustainability, is the severe pressure of Uganda's budget situation. Fiscal revenues are less than 10% of GDP, and increasing this percentage in the near future will occur slowly, at best. The GOU has an enormous deficit budget which is heavily supported by donors. On the expenditure side, not only must teachers' salaries be increased, but so, too, must those of the entire civil service. This fiscal juggling act will continue for some time, until planned tax-reform measures take hold. Until that

time, donors must be prepared to cover this deficit, which will continue to decline as the economic reforms deepen.

**SO 4. Stabilize the health status of Ugandans (\$12,919,562--\$6,869,562 DFA and \$6,050,000 DAF-- of which \$6,468,062 is for Economic Growth and \$6,451,500 is for Stabilizing Population Growth).**

Uganda has the lowest life expectancy in the world. The average life expectancy at birth is now 37 years (down from 48 years in the mid-1980s), and is expected to drop to 31.5 years by 2010. Human immuno-deficiency virus (HIV) infection rates in pregnant women, the most reliable data available, are still in the range of 25% in the capital city of Kampala. The U.S. Census Bureau asserts that the Acquired Immune-Deficiency Syndrome (AIDS) epidemic in Uganda will cause changes in the country's demographic trends over the next decade, with major impact on population size, premature adult deaths, the dependency ratio, and infant-mortality rates.

**Activities.** USAID identified the high rate of infection for AIDS and the low rate of contraceptive usage as critical issues that must be addressed to maintain the health status of Ugandans. A set of integrated activities has been developed which concentrate on providing clinical and counseling services in family planning, treatment and prevention of sexually-transmitted diseases, and HIV testing and counseling for AIDS prevention. Information, education, training and social marketing of contraceptives programs are also important components of this integrated approach.

**Indicator:** Impact of the program will be measured by reduced HIV transmission in intervention areas.

**Feasibility and Cost-effectiveness.** Current high rates of HIV infection make the achievement of near-term impact extremely challenging. It is encouraging to note, however, that recent data from the Ministry of Health show that HIV infection rates among pregnant women attending antenatal clinics in Kampala and other urban sites have declined slightly, but consistently, between 1992 and 1993. These findings suggest that achievement of this strategic objective is feasible. A study of the cost-effectiveness of certain interventions is being conducted.

**Progress in 1993-1994.** In addition to the decline in rates of HIV infection noted above, evaluations of USAID interventions have documented significant changes in sexual behavior. Recent evidence indicates that persons who participate in HIV tests and counseling are adopting safer sex practices, including increased condom usage, a reduction in the number of partners, and abstinence. Members of communities which have benefitted from USAID-funded AIDS education projects report decreases in casual sexual partners and increased condom use. Condom sales in the social-marketing program totaled 2.1 million in 1993, an increase of 66% over 1992. Sales in the first half of 1994 have already exceeded the total of 2.1 million for 1993. In addition, over 13.5 million condoms were distributed free of charge in 1993.

**Donor Coordination.** Donor coordination in the health sector has been very strong in Uganda. USAID's \$25 million Delivery of Improved Services for Health project has leveraged an additional \$50 million health-sector loan from the World Bank in parallel financing. USAID co-chairs a social-sector donor sub-group, responsible for coordinating external resource allocations for the social sectors in Uganda.

**Constraints.** Approximately 90% of the Ugandan population lives in rural areas. USAID-funded projects have provided community-wide AIDS education to rural areas, but the provision of specialized services such as HIV testing and counseling, and the diagnosis and treatment of sexually-transmitted diseases in rural areas, remains more difficult. Another constraint to improving the health status is the heavy demand on the dilapidated health-care system created by the dual epidemics of AIDS and tuberculosis. It is estimated that more than 50% of all hospital beds are now occupied by persons infected with HIV. The increasing need for palliative care for persons dying with AIDS will prevent the already inadequate number of health personnel from devoting their efforts to preventive health interventions.

## **PROTECTING THE ENVIRONMENT (\$6,471,600).**

**SO 2. Stabilize biodiversity in target areas (\$6,471,600 of which \$6,271,600 is Development Fund for Africa and \$200,000 is Development Assistance Funds).**

In the 1960s, Uganda earned more money from tourism than did Kenya. Tourism could again become a major source of income and employment if the management of the protected areas in Uganda could be improved to the point where biodiversity of the region is maintained. USAID's experience indicates that Ugandans will participate effectively in programs designed to sustain biodiversity when there are appropriate benefits.

Activities. The Action Program for the Environment is the main USAID activity designed to improve Uganda's performance in maintenance of natural resources and the environmental base. The activity has two main components: (1) policy reform; and (2) rehabilitation and resource conservation. Progress to date has been impressive: a national environmental action plan has been adopted and is being implemented. Several non-governmental organizations (NGOs) are implementing conservation activities to protect biodiversity of the new-protected areas which were established through the intervention of the program.

Indicators. Target indicators for measuring progress in the achievement of this SO include: (1) maintaining the current level of tree, mammal and bird species; and (2) increasing the percentage of people who derive benefits from activities related to protected-area management.

Feasibility and Cost-effectiveness. Over the past five years, USAID has supported small regional efforts designed to involve the local population in profitable conservation programs within protected areas. Evidence from these activities suggests that this model is effective at protecting the ecology. There is also evidence to demonstrate improvements in the economic welfare of the local people. The costs of the initial program met reasonable standards of cost-effectiveness, which suggests that an effective national program is achievable.

Progress in 1993-1994. Progress has been substantial, with the number of tourist visits reaching 40,000 in 1993. This represents an increase of 82% over the previous year. National park revenues from users' fees doubled during this same period. These fees are used to finance improvements in the parks. Similarly, employment in the parks for residents of nearby communities increased by 20%, from 525 to 630 persons. Preliminary data indicate key species such as gorillas, elephants, antelopes and mahogany trees are increasing.

Donor Coordination. USAID and the World Bank are the main donors in this sector. Other donors include the Netherlands, German Technical Assistance, and Danish International Development Agency. Coordination among the donors has been highly effective, marked by frequent consultations.

Constraints. A promising beginning has been made in managing the natural-resource base of Uganda on both a sustainable and profitable basis. However, much remains to be done, and many obstacles must be overcome. There is a growing demand for farm land in Uganda, and while the agricultural potential of the protected areas is minimal, the landless maintain pressure to farm these areas. The need for fuelwood also poses a continuing risk to protected areas. Tourism itself, while offering the potential for significant revenue and employment, brings potential stress to the National Parks System, and will have to be carefully managed. The Uganda National Parks System has adopted a sound set of policies, but has not yet demonstrated that it has the capacity to manage these resources on a sustained basis.

A Demographic and Health Survey (DHS) conducted in 1988/89 provided the first new information on population issues in many years. The DHS revealed that, on average, Ugandan women bear 7.4 children during their reproductive lives. This is one of the highest fertility rates in the world. At the



time, only 2.5% of married women were found to be using a modern method of contraception, one of the lowest contraceptive-prevalence rates in the world. The compelling need for increased service availability and trained service providers was apparent and became the focus of USAID family-planning activities.

**Activities.** USAID has been a major contributor to family-planning activities and the primary donor of contraceptives for almost a decade. A new reproductive health project combines activities in family planning, sexually-transmitted diseases (STDs) and HIV/AIDS prevention within 10 of Uganda's 39 districts. The project is designed to contribute to the improved health of Ugandans by lowering fertility rates and high-risk pregnancies, improving child spacing and reducing HIV transmission. The project is taking an integrated approach toward improving health services by upgrading the performance of health-providers through training and by providing necessary equipment. A major initiative will improve STD services which are especially underdeveloped due to serious shortages of trained staff, drugs and related supplies.

**Indicator.** The indicator that is being used to measure progress is a reduction in the total-fertility rate, from 7.4 to 6.9 in intervention areas by 1999.

**Feasibility and Cost-effectiveness.** In spite of problems that exist within the national health system, there has recently been a substantial increase in the utilization of family-planning services, and a dramatic increase in the number of condoms distributed in Uganda. There remains a significant, and as yet unmet, demand for family-planning services. The fact that condom sales continue to rise also demonstrates that Ugandans are interested in family-planning services, and are willing to pay a modest amount for such commodities as condoms. USAID will continue to fund cost-recovery projects which will be implemented primarily through NGOs and private facilities.

**Progress in 1993-1994.** Aside from the increase in condom sales noted earlier, many of the family-planning activities initiated as part of the predecessor project have been completed and were evaluated during 1994. Conclusions and recommendations from these projects will be used to strengthen the design and implementation of new family-planning activities that will begin this year under a new health project. While changes in fertility are not measured annually, the Ministry of Health reports that limited surveys within selected areas estimate contraceptive-prevalence rates at approximately 10%.

**Donor Coordination.** Donor coordination, jointly led by USAID and the United Nations Children's Fund, has been very effective in the population sector and has resulted in a focussing of British, Danish, United Nations Family Planning Agency, and World Bank activities. The World Bank will be designing an additional health-sector credit of up to \$100 million, which will upgrade and expand integrated health services in certain parts of Uganda.

**Constraints.** The AIDS epidemic has taken a heavy toll on the frail health-care delivery system. Government funds are generally not available in a timely fashion to pay salaries of health workers, and this results in the health-providers seeking other means to support their families. Cost-recovery schemes are intended to improve the motivation and job performance of health workers, but successful implementation will not be a simple matter. Increasing levels of participation in contraceptive social-marketing programs suggest that such cost-sharing projects can be effective in the area of family planning.

**BUILDING DEMOCRACY (\$1,043,116 of which \$843,116 DFA and \$200,000 DAF).**

USAID has been active in supporting Uganda's efforts to create a constitutional democracy. In addition to providing financial and technical support for the electoral process, USAID is involved in the process of codifying Uganda's legal code. Codification of the legal system has not been done since 1966. USAID also supports a series of small activities with various Ugandan NGOs in the area of civic

education and para-legal training, activities designed to develop civil society. Training is planned for political parties to make them both more competitive and responsible.

**HUMANITARIAN ASSISTANCE (\$3,731,000).**

The P.L. 480 Title II vegetable oil program will continue to provide key food commodities that are in short supply in Uganda. The program will also continue to generate local currency to support rehabilitation of the domestic edible oil industry and to assist small farmers, agricultural cooperatives and women's groups increase their involvement in agribusiness.

**Other Donor Resource Flows.**

In FY 1993, the United States provided about 12% of all donor assistance to Uganda. Other major contributors are: the World Bank, the International Monetary Fund, the European Union, United Nations agencies, the United Kingdom, and Denmark.

**UGANDA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
<b>1. Increase rural incomes.</b>						
Dev. Fund for Africa	10,247,000	--	--	--	--	10,247,000
Dev. Asst. Fund	235,000	--	--	--	--	235,000
<b>2. Stabilize biodiversity in target areas.</b>						
Dev. Fund for Africa	--	--	6,271,600	--	--	6,271,600
Dev. Asst. Fund	--	--	200,000	--	--	200,000
<b>3. Improve basic education.</b>						
Dev. Fund for Africa	14,300,000	--	--	--	--	14,300,000
Dev. Asst. Fund	450,000	--	--	--	--	450,000
<b>4. Stabilize health of Ugandans.</b>						
Dev. Fund for Africa	3,118,062	3,751,500	--	--	--	6,869,562
Dev. Asst. Fund	3,350,000	2,700,000	--	--	--	6,050,000
<b>Cross-cutting issues:</b>						
<b>Dem/Governance</b>						
Dev. Fund for Africa	--	--	--	843,116	--	843,116
Dev. Asst. Fund	--	--	--	200,000	--	200,000
P.L. 480, Title II	--	--	--	--	3,731,000	3,731,000
<b>Total</b>	<b>31,700,062</b>	<b>6,451,500</b>	<b>6,471,600</b>	<b>1,043,116</b>	<b>3,731,000</b>	<b>49,397,278</b>

USAID Mission Director: Donald Clark

## ZAMBIA

**FY 1996 Development Fund for Africa Request: . . . . . \$37,524,852**  
**FY 1996 Development Assistance Request: . . . . . \$900,000**

Despite a promising start at Independence in 1964 Zambia has become one of Africa's poorest and most indebted countries, with a per capita income of about \$430 and outstanding per capita debt of about \$700. The poor and deteriorating economic and social environment resulted from ill-conceived policies introduced shortly after independence and continued until the election of a new government in October 1991. The Zambian people now face major challenges in reclaiming past economic and social achievements. Macroeconomic stability has been achieved in the past two years through significant monetary and fiscal discipline. The Government of the Republic of Zambia (GRZ) must now fulfill its commitment to restructure itself, privatize the economy, and institute critical social programs. It is in the U. S. interest that the GRZ succeed in its efforts to stabilize its economy, consolidate democratic processes, and open investment opportunity for Zambian and foreign investors. Renewed growth will lead to individual well-being and general prosperity in this agriculturally rich, highly urbanized country. Zambia is a major world supplier of copper. The recent sale of two copper mines and the expected divestiture of the remaining state-owned mines will increase opportunities for investment and capital equipment sales. A strong and successful Zambia can contribute to a strong, successful and fully democratic southern Africa region. Recently, Zambia has been active in fostering peace in the area. Zambia hosted and brokered the recently concluded Angolan peace talks and is contributing troops to the social and political stabilization of Rwanda, Mozambique and Somalia. Zambia will be unable to continue playing this role if its economy fails.

### **The Development Challenge.**

The USAID Zambia Program supports the new government's efforts to re-establish democracy and to reopen markets. To be sustainable, the newly announced policies must result in expanded political and economic opportunities for Zambia's 9.4 million people. Unemployment is serious, per capita income is half its 1960s level, and social indicators show sharp declines. The high population growth rate makes it difficult for per capita income to increase. HIV/AIDS is sweeping the country at epidemic levels. Economic infrastructure has been allowed to deteriorate severely. Before the initiation of current efforts to privatize the economy, 80% of economic activity was controlled by parastatals.

### **Strategic Objectives (SOs).**

USAID strategy for Zambia during FYs 1993 through 1997 is focused on creating a climate within which a free-market economy can develop and prosper and on improving access to health services. In the first area, USAID is providing assistance for privatizing parastatal companies; establishing and enforcing appropriate policies, laws and regulations conducive to private-sector operations; and strengthening governmental, nongovernmental, and multi-party institutions for political and economic participation and improved governance. Improved health services are provided through a Ministry of Health-led strategy of decentralized health care delivery for child survival, family planning and HIV/AIDS/STD education and prevention.

To contribute to an environment that fosters rapid and equitable economic growth and to speed access to opportunities for Zambians, USAID proposes \$21.7 million in bilateral funding for FY 1996 and approximately \$5 million in centrally and regionally-funded technical assistance. At present no program assistance is thought appropriate, and no P.L. 480 assistance is envisioned although the risk of drought regularly threatens the region. The United States has forgiven all bilateral debt that can be forgiven under existing legislation, but further debt relief is needed.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$27,345,332).**

**SO 1. The state removed from the provision of private goods and services (\$14,100,000 of which \$13,925,000 is for Economic Growth and \$175,000 is for Protecting the Environment).**

In line with the GRZ's desire to decrease the size of government, USAID's first Strategic Objective focuses on parastatal privatization, specifically the sale of 170 public companies, including the copper mines, utilities, and other strategic firms.

**Activities.** USAID is funding technical services to support the preparation and sale of public companies. The purpose is to help dismantle the state economy, open market opportunities for local and international business, and free resources and talent for government provision of typical public services. A grant to International Executive Service Corps (IESC) provides retired U.S. executives to help strengthen performance of newly-privatized and other small-to-medium sized enterprises. IESC executives typically provide advice on business planning and financing, product marketing, and available technological improvements to make client businesses more competitive in this newly-opened marketplace. With USAID regional financing, funds have been committed to help privatize the Zambian telecommunications industry and facilitate entry by new firms. An industry licensing and monitoring authority will be established and technical assistance will help develop sufficient local capacity for informed decision-making on modernizing local telecommunications with new services such as callback, cellular, private payphones, other long-distance options, and radio-telephones. Under the regional Initiative for Southern Africa (ISA), \$20.8 million is requested for FY 1996 to help privatize the Zambian telecommunications and railroad industries. USAID technical assistance will lay the groundwork for a well-defined, appropriately sequenced, national restructuring of the telecommunications industry with the objective of increasing and broadening access of users to more cost-effective systems. A corollary objective is to link private U.S. telecommunications services and equipment suppliers into the regional network as a source of new investment for improved efficiencies. USAID's interest in the proposed restructuring of Zambia Railways, a publicly-held company, is to promote private participation in all possible aspects of railway operations and ancillary services and, more generally, to ensure that Zambia Railways becomes commercially oriented and financially sustainable. Non-project assistance is an option which may be employed under appropriate circumstances to accomplish ISA objectives in Zambia.

**Related Activities.** It is essential for the GRZ to eliminate the parastatal holding company as promised since it is the locus of opposition to GRZ privatization plans. Also important is development of a plan for divestiture of the copper-mining parastatal, the largest single parastatal. To facilitate divestiture, USAID is facilitating environmental reviews of parastatals prior to sale. This is alleviating buyer concerns regarding potential liabilities and has encouraged private investment in site clean-ups and improved, cleaner production processes. The GRZ recently requested USAID assistance in liquidating assets under Ministry of Agriculture control.

**Indicators.** There are two indicators, private sector share of GDP, and number of parastatals sold. Projecting conservatively, USAID expects the private sector share of GDP to rise from 20% in 1992 to at least 40% by 1997. Thirty-three parastatal companies should be privatized in 1995. Both the efficiency and the growth rate of the economy should improve greatly.

**Feasibility and Cost-effectiveness.** Privatization is essential for growth of the Zambian economy. The expected sale of over \$600 million in state-owned assets in 1995 should result in new investment and increased production as the private-sector reacts to perceived, new, market opportunities from decreased government intervention and as former parastatals become more efficient. The economy will also benefit from the reduction in government expenditures. The GRZ is committed to the process of privatization but requires donor assistance and has requested USAID leadership and support in hastening the privatization process.

**Progress in 1993-1994.** The Zambian Privatization Agency, an independent, time-limited body created to divest parastatals, has been established and 16 companies or major units worth over \$60 million (including the national airline, cement plants and a brewery) have been sold or closed.

**Donor Coordination.** USAID is the leading bilateral donor supporting privatization. The World Bank is conditioning balance of payments support on progress achievements. The Norwegians, Germans and British are the other major bilateral donors. The GRZ remains committed to privatization but donor support speeds the process through the provision of technical services which are otherwise not available.

**Constraints.** Closure of the national parastatal holding company and divestiture of the copper mine are sticking points. Zambia is a very poor country. A weak economy limits availability of domestic investment capital and makes it more difficult to find buyers for parastatals. Finally, there is some resistance to divestiture given the expected retrenchments.

**SO 2. Appropriate policies, laws and regulations promulgated and enforced to increase agricultural production and marketing (\$8,405,332 of which \$8,020,332 is for Economic Growth and \$385,000 is for Protecting the Environment).**

Before agricultural production can increase, the GRZ must change the incentive structure. USAID is supporting a GRZ initiative to liberalize policies, laws, and regulations governing agricultural inputs and outputs as well as land ownership and use. Given Zambia's comparative advantage in the region for agricultural production, liberalization measures should increase investment in agriculture and improve living standards in rural areas. First, however, the GRZ must privatize state-owned firms, eliminate subsidies, and liberalize markets. With respect to land, new legislation is required to permit the sale or transfer of leasehold titles, protect smallholders' rights, and expand the right of women to acquire land, e.g., through inheritance.

**Activities.** USAID's sectoral program supports a GRZ agricultural strategy that identifies the steps needed to increase private investment in agriculture and undertakes activities needed to improve smallholder access to markets. USAID is focusing on participatory dialogue to build consensus on policies and implementation practices; capacity building in the Policy and Planning Department of the Ministry of Agriculture; and establishment of a Policy and Planning Unit in the Ministry of Land. The Mission also sponsors pilot activities to investigate the relationship between various policy, legal and regulatory changes and the resulting impact on the investment climate and small-farmer production. Farmer group business development, agricultural credit and food security analyses are under way. USAID dialogue stresses that the success of the GRZ agricultural-sector liberalization process is dependent upon the full involvement of private sector interests, including the NGO community.

**Related Activities.** Through the regional Natural Resource Management Program, judicious, locally-based natural resource management systems encourage conservation, local participation, and increased sustainable yield from the wildlife estate.

**Indicators.** Agricultural input and output price variations by region and over time illustrate the impact of market liberalization on investment. The analysis of regional and temporal price movements and the relationship between price movements and such factors as transport and storage costs will indicate market efficiency. Rural input and output prices will in turn enable USAID to assess the impact of liberalization on farm profitability. Once investors gain confidence and markets are working, some 300,000 smallholders will plant and market crops in line with market signals and their comparative advantages.

**Feasibility and Cost-effectiveness.** USAID is working with the private sector, NGOs and the GRZ to explore more cost-effective, sustainable approaches to reach smallholders, who are typically disadvantaged in accessing crop inputs and commodity markets. The socialistic approaches of the

former one-party state failed and resulted in over-dependence on maize. Crop diversification in response to market signals is already evident.

**Progress in 1993-1994.** The GRZ's maize marketing policy for the 1994/95 marketing season removes virtually all interference with the market: Agricultural prices are now market determined; there are no restrictions on international trade and commodities are moving freely across borders; and, commodity traders are no longer administratively selected by the Government. The Government is providing liquidity to commercial banks for lending to traders based on the bank's assessment of the loan request. The Ministry of Agriculture facilitates trading by routinely announcing market price and condition information through newspapers and radio.

**Donor Coordination.** USAID is coordinating its efforts with the World Bank led sectoral approach. To date, however, USAID and several of the other bilateral and multilateral donors are not comfortable with Bank and GRZ inclinations to limit private sector involvement in sectoral planning and policy development efforts. Further discussions aimed at enhancing private and NGO contributions are envisioned.

**Constraints.** Most smallholders live in traditional land areas that lack basic public services such as roads, schools, and communications. This effectively limits smallholder access to inputs and commodity markets.

#### **SO 4. Improved HIV/AIDS/STD control practices by high risk individuals (\$2,900,000).**

At an estimated 24% overall, Zambia's human immunodeficiency virus (HIV) rate ranks among the highest in the world, adding to the difficulties of a health-care system already deficient. The loss of trained manpower is proving a major constraint to overall economic development prospects. The requested FY 1996 funding provides for USAID-sponsored activities being implemented by the Morehouse School of Medicine (an HBCU) under a Cooperative Agreement with USAID.

**Activities.** USAID is a major donor for the GRZ's progressive and comprehensive program for the prevention, monitoring, and care of HIV/AIDS-related diseases. USAID is supporting public health education for high risk target groups, increasing the availability of condoms on the commercial market, and improving counseling/testing services. In addition, USAID is improving the availability of medications to reduce sexually transmitted diseases (STDs) which greatly facilitate the heterosexual transmission of the HIV virus.

**Indicators.** Increased condom sales will be the primary measure of the effectiveness of current activities.

**Feasibility and cost-effectiveness.** Given the current lack of a cure for AIDS, the best way to mitigate the burgeoning AIDS epidemic in Zambia is to effect behavioral modification through promotion/maintenance of safe sexual practices. If the HIV/AIDS pandemic can be reduced to a point where the relationship between long-term behavioral change and improved health is apparent, the changes in attitudes and behavior should continue with minimal external resources.

**Progress in 1993/94.** USAID project performance in subsidized condom sales and distribution exceeded projections by more than one half, up to 7 million annually.

**Donor Coordination.** USAID-sponsored activities are implemented under the monitoring and supervision of the GRZ's National AIDS Prevention and Control Program. USAID is the major active donor assisting in this subject area.

**Constraints.** The GRZ health sector is under-funded and in many instances short of the experienced technical skills required to implement the necessary programs. Elements of the USAID program are

not yet national in scope. Current sexual practices facilitate HIV transmission and cultural changes are often slow in coming.

**Cross-cutting Issue: Improved Child Survival (\$2,500,000).**

USAID is currently designing an integrated child-survival program for FY 1995 authorization and initial funding. The purpose is to improve decentralized access to key child survival services, including those delivered at home. FY 1996 funding will provide second year financing for this incrementally funded program.

Activities. USAID-supported activities will concentrate on strengthening capacity at the district level to carry out specific child survival activities - such as the treatment of diarrhea and acute respiratory infections and prevention and treatment of malaria - through training and the development of health management systems. USAID will further improve health care in the home and community through information, education and communication activities. Support to national policy development will be limited to government health care decentralization strategy and implementation.

Indicators. The primary indicator is a 20% reduction in under-five child mortality from the current level of 191/1,000 per year over a seven year period.

Feasibility and Cost-effectiveness. USAID is promoting an integrated package of focused child survival interventions (immunization, control of diarrheal disease, respiratory infections, malaria, and undernutrition) in combination with support of essential support systems (e.g. logistics, training, supervision) to achieve low-cost, effective, and sustainable improvements in child health. The optimal package of support for Zambia is being developed, in cooperation with the Ministry of Health, other donor partners, and non-governmental organizations, in the context of the dynamic health reform process that is underway.

Progress in 1993-1994. In the face of Zambia's daunting economic problems and the threat posed to the existing health care system, the GRZ has adopted a program of extensive reform designed to provide more effective health care in an equitable manner using a decentralized management and delivery structure. This vision, as promulgated by effective leadership, has convinced donors over the past two years that returns on investment in the sector are promising.

Donor Coordination. USAID assistance for the Ministry of Health is being designed in close collaboration with the broad based programs of UNICEF, WHO, Danish aid (DANIDA), and Swedish SIDA.

Constraints. A shortage of qualified and adequately compensated health care workers, and Zambia's fiscal constraints, are two major factors limiting health care reform.

**STABILIZING POPULATION GROWTH (\$6,426,964 of which \$5,526,964 DFA and \$900,000 DAF).**

**SO 3. Increased use of modern contraceptives (\$6,426,964).**

Zambia's population level has risen from 4.1 million in 1969 to 9.4 million in 1994. Zambia can sustain neither rapid population growth nor the debilitating effect on maternal and child health resulting from it. To address this, the use of modern contraceptives will have to increase.

Activities. USAID is subsidizing the sale of oral contraceptives through retail outlets and improving contraceptive service delivery at select clinics. Additional activities are increasing public awareness of the benefits of contraception and correct usage by sponsoring a mass media campaign describing the benefits of smaller families, the physiological affects of modern contraceptives, and gender



responsibilities for reproductive behavior. USAID is also advising on national policy and legislative developments.

Indicators. USAID is seeking to help the GRZ reduce total fertility from 6.5 in 1992 to 6.0 in 2000, and to increase contraceptive prevalence (use) from 8.9 in 1994 to 20 in 1998.

Progress in 1993-1994. The GRZ has met conditions essential to the success of USAID's planned efforts, and USAID-sponsored activities are just getting started. Importantly, the GRZ has recognized the negative impact of rapid population growth on socio-economic development and the consequent need to systematically integrate population issues into the nation's development planning and implementation process.

Donor Coordination. USAID, the British Overseas Development Agency (ODA), and the United Nations Fund for Population Activities (UNFPA) meet regularly on population matters. The World Bank has been instrumental in ensuring that donors coordinate efforts in the health and population sector.

Constraints. The delivery of quality family planning services is limited by the lack of trained health personnel, the limited hours of operation for public-health clinics, the theoretical and actual limits of the contraceptive method mix, and the operational problems of the contraceptive logistical management system.

#### **BUILDING DEMOCRACY (\$4,092,556).**

##### **Cross-cutting Issue: Democratic Governance (\$4,092,556).**

The institutions and habits of one-party rule are deeply embedded in the Zambian political culture. In the wake of a rapid political transition, Zambia lacks a full range of civic and governmental institutions to consolidate and sustain democracy. USAID plans to commit \$15,000,000 over a five year period to foster greater accountability between the GRZ and its citizens.

Activities. USAID is supporting activities to make public decision-making more accessible and effective by increasing citizen awareness of rights and responsibilities, enabling independent journalism, enhancing legislative performance, and improving public policy implementation. The National Democratic Institute is working, under USAID grant, to strengthen political parties in anticipation of national elections scheduled for October 1996.

Indicators. USAID is monitoring the following: constraints on an independent media; executive and legislative capacity to assess policy options and respond to citizen needs; voter registration, and the extent to which the political process is informed and free.

Progress in 1993-1994. While significant measures have been taken to improve governance, a common perception of the Zambian electorate is that abuse of public office is widespread. Noteworthy developments in 1993-1994 are as follows: the legislature passed an ethics code for elected officials that offers promise of greater discipline and transparency; constitutional review is well underway; legislation has been changed to permit private electronic media, and the first privately owned radio station is broadcasting; civic education NGOs are proliferating and flourishing with donor assistance; the Cabinet is functioning more efficiently; political parties and appointed officials have welcomed and utilized USAID programs to strengthen their competence in representing their constituencies and articulating policy positions.

Donor Coordination. Recognizing that democracy and governance are essential components of sustainable and equitable economic development, donors have moved swiftly to establish programs of assistance. Among the most active are the UNDP and World Bank in the area of public service and judiciary reform; the British ODA with special interests in governmental decentralization and fiscal

responsibility; Ireland in the training of senior civil servants; and the Nordic countries in civic education, election monitoring, electoral reform, and constitutional reform. Donors are organized informally for activity coordination purposes, and the World Bank Consultative Group meetings provide the fora for addressing higher level concerns to the GRZ .

**Constraints.** Because of personnel changes in several ministries, USAID lost the support of some key GRZ officials. This has delayed implementation of activities. Also, several leaders are pre-occupied with the 1996 elections and their political survival rather than promoting good governance and democratic goals.

#### **Other Donor Resource Flows.**

In terms of net disbursements, IDA, EDF, Germany, Japan, and Italy were the largest donors over the 1991 to 1993 period. In FY 1993, the United States disbursed \$59 million in grant assistance and provided \$58 million in debt relief. At the December 1994 Consultative Group meeting the major donors and the IFIs pledged \$2.1 billion in support of Zambia's development. This magnitude is composed of a bridge loan to eliminate I.M.F. debt payment arrearages (\$1.2 billion); debt relief of \$154 million; balance of payments assistance of \$440 million; and, project and commodity assistance of \$347 million. The United States is contributing 2.6% of the total pledged. In order of magnitude of pledging, Japan, Norway, Germany and Sweden are the leading bilateral donors.

**ZAMBIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. The State Removed from the Provision of Private Goods and Services.	13,925,000	--	175,000	--	14,100,000
2. <i>Appropriate Policies, Laws and Regulations Promulgated and Enforced to Increase Agricultural Production and Marketing.</i>	8,020,332	--	385,000	--	8,405,332
3. Increased Use of Modern Contraceptives.					
Dev. Fund for Africa	--	5,526,964	--	--	5,526,964
Dev. Assistance Fund	--	900,000	--	--	900,000
4. Improved HIV/AIDS/STD Control Practices by High Risk Individuals.	2,900,000	--	--	--	2,900,000
Cross-cutting issues:					
Improved Child Survival	2,500,000	--	--	--	2,500,000
Democratic Governance	--	--	--	4,092,556	4,092,556
<b>Total</b>	<b>27,345,332</b>	<b>6,426,964</b>	<b>560,000</b>	<b>4,092,556</b>	<b>38,424,852</b>

USAID Mission Director: Joseph F. Stepanek

## ZIMBABWE

**FY 1996 Development Fund for Africa Request: . . . . . \$22,587,512**  
**FY 1996 Development Assistance Fund Request: . . . . . \$800,000**

The United States continues to assist Zimbabwe for two important reasons: Zimbabwe is an excellent future market for U.S. goods and services and plays a strong leadership role in conflict resolution and regional stability in the Southern Africa region. With a four billion dollar Gross Domestic Product, Zimbabwe possesses one of the largest economies in the region, after the Republic of South Africa, and continues to grow. Recent moves to liberalize foreign exchange controls, reform repatriation of profits and capital, and sell off unprofitable parastatals have opened the door for increased U.S. investment. With this growing market economy comes the expansion and demand for higher value U.S. imports. Zimbabwe has also taken a firm stance in resolving conflict in the region, from easing disputes prior to the recent election in Mozambique to committing troops for Somalia. Zimbabwe stands out as one of the leaders in sub-Saharan Africa in the promotion of peace and stability, bringing relief to U.S. efforts in both financial and human terms. Ensuring that Zimbabwe continues to play this stabilizing regional role falls directly within U.S. national interests.

### **The Development Challenge.**

The results of U.S. assistance in recent years, together with the Government of Zimbabwe's (GOZ) own efforts and those of other donors, have been nothing short of remarkable. In the ten years following independence, the health and education of the Zimbabwean population improved markedly and the rate of population growth slowed significantly. In fact, recent data show that between 1984 and 1994 the total fertility rate (average number of children per Zimbabwean mother) has dropped from 6.5 to 4.4. In addition, the participation of smallholder farmers in the cash economy has increased dramatically. Production of maize and cotton by nominally subsistence farmers on communal lands increased from 10% at independence to 60% of total production by the end of the 1980s. More recently, USAID-supported pricing and marketing reforms led to a near-total liberalization of the maize market, resulting in lower prices and greater food security. A USAID-led effort during the drought of 1992-1993 (the worst in a century) is credited with averting widespread hunger and possibly even starvation just as a major economic reform program was getting off the ground.

Although Zimbabweans today are healthier and better educated than they were ten years ago, past economic policies, rapid population growth and, more recently, the scourge of HIV/AIDS, combined with exogenous factors such as the 1992/93 drought and depressed commodity prices for most of the 1980s, have retarded Zimbabwe's development in recent years. USAID assistance in Zimbabwe focuses on the poor majority while simultaneously providing strong support to the national, macro-level economic reform program undertaken by the GOZ under joint International Monetary Fund/International Bank for Reconstruction and Development (IMF/IBRD) auspices. Three strategic objectives have been identified, all of which contribute to the overall goal of equitable, participatory economic growth. A strong cross-cutting theme is improved governance and participation at all levels of Zimbabwean society.

### **Strategic Objectives (SOs).**

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$11,700,495).**

**SO 1. Increased household food security in communal areas of Natural Regions IV and V (\$4,675,000 of which \$1,100,000 is for Economic Growth and \$3,575,000 is for Protecting the Environment).**

The first strategic objective focuses on the poor of Zimbabwe's communal lands, that 35% of the population (of 10.4 million) who, by virtue of unequal access, subsist on marginal lands in Zimbabwe's

Natural Regions IV and V. USAID's historic involvement in addressing agricultural and food security challenges around the world and in Zimbabwe holds promise for these people. Opportunities exist for increasing the productivity of their land, identifying alternative income sources (like village-level wildlife management schemes), and ensuring that rural people in these areas have sufficient purchasing power to procure marketed food.

Activities. Major activities include fundamental pricing and marketing reforms in the Zimbabwean maize sector under the Grain Marketing Reform and Grain Marketing Reform Research Projects and research and technology transfer of promising new sorghum and millet varieties under the Regional Sorghum and Millet Research Project. The latter is a multi-country activity based in Bulawayo, Zimbabwe's second city, and carried out under the auspices of the 11-nation Southern African Development Community (SADC). Wildlife management activities carried out through the Natural Resources Management Project, which also fall under this SO, are discussed in the section below on Protecting the Environment.

Related Activities. The Zimbabwe Manpower Development II Project (ZIMMAN II) has been a regular supplier of management and technical training for the ever-increasing number of medium-sized maize millers resulting from project-supported reforms (see section below on progress in 1993-1994). The Consumer Council of Zimbabwe has also used funds from the ZIMMAN Project to help disseminate information to the general public on the content and significance of reforms in the grain marketing sector.

Indicators. Progress under this SO is being measured through increases in average household foodgrain availability, the amount of domestic food production retained for household consumption, and estimated actual foodgrain/meal purchases, all in terms of kilograms per household per year.

Feasibility and Cost-effectiveness. The key problems needed to address food security revolve around production, income, and access to food. USAID programs address each of these constraints. Research results leading to improved production techniques and varieties will be better disseminated, while off-farm income opportunities are increased through community based programs in resource management. Access to food and markets is being achieved through liberalization of marketing and deregulation to allow free movement of goods. USAID's investment under this SO will improve the lives of the 716,000 households comprising 3.9 million people in the target areas.

Progress in 1993-1994. In 1993, significant liberalization of the grain market removed subsidies to commercial millers and lifted all restrictions on the transport, purchase, and sale of maize. Consumers now have a broader choice of outlets and types of grain at lower prices and can make choices based on their economic situation and market availability, and sellers can operate without restriction. These changes have resulted in a dramatic increase in the number of rural enterprises as new opportunities have arisen in marketing, milling and transporting of grain. Where only very recently all grain marketing activities were controlled by a central Grain Marketing Board, there are now approximately 20 milling companies scattered throughout the country. Simultaneously, the number of small scale "service" millers has increased to over 15,000, predominantly in the rural areas. Removal of the maize subsidy is already saving the GOZ nearly \$5 million per month in budgetary outlays. In sorghum and millet research, the transition was recently made from applied research to full-fledged technology transfer. The SADC Secretariat also recently approved a sustainability plan committing SADC countries to finance, from their own funds, a long-term investment program beginning as early as 1996.

Donor Coordination. USAID coordinates closely with other donors under the grain marketing reform program, particularly with the World Bank. Areas of coordination include joint identification of needed policy reforms and assessments of reform impacts. For the sorghum and millet research activity, coordination is assured through a semi-annual steering committee meeting in which all donors participate with heads of the program from each of the 11 SADC countries, in addition to the annual SADC Coordinating Committee for Agricultural Research.

**Constraints.** Effective dissemination of information on the policy changes and further efforts to increase liberalization will be needed to ensure that changes made to date are sustainable. In addition, coordination among governmental and non-governmental groups and agencies is essential for maintaining achievements. USAID is presently considering refocusing its efforts under this SO to place greater proportional emphasis on decentralization, increased local incomes and participation, and preservation of the natural resource base in Natural Regions IV and V (see also, section on Protecting the Environment, below). In sorghum and millet research, the principal constraint revolves around demonstrating that the potential for increased yields of these two subsistence crops far outweighs the added cost of the new genetic materials and technologies developed under the project. Accordingly, demonstration plots and on-farm trials will play a major role under the technology transfer phase.

**SO 2. Increased black ownership and investment at all levels of Zimbabwe's economy (\$6,200,495).**

This strategic objective is borne from the recognition that access to economic assets and empowerment has been disproportionately vested in the white population (one percent of the total) and the central government. By broadening access to economic assets, opportunities for increased competition and improved efficiency are created. Perhaps more significant and politically imperative is the need for the GOZ to foster creation of a decontrolled, market-led enabling environment that is conducive to investment, economic growth, and increased employment and ownership opportunities for all Zimbabweans, both black and white.

**Activities.** Activities presently underway in Zimbabwe under this SO include Zimbabwe Business Development, Zimbabwe Manpower Development II, Private Sector Housing, and the Zimbabwe component of the Regional Transportation Development II Project. A FY 1995 start--Black Equity Development--will focus on increasing employee ownership, increasing access to financial resources by micro and small enterprises (businesses with 1-100 employees), and strengthening the programs of business and trade associations.

**Related Activities.** Continuing policy dialogue with the GOZ in the context of the economic structural adjustment program is an important element of USAID's efforts to increase black ownership and investment in the economy, including reforms that facilitate black Zimbabweans becoming homeowners for the first time. In its reform discussions with the GOZ, USAID is giving particular emphasis to the need for deliberate speed in selling off government assets and giving more of a leadership role to the private sector. Using targeted, tailor-made programs, USAID is also bringing critical issues in privatization and financial reform to the forefront with key sectoral decision makers.

**Indicators.** Principal indicators of success under this SO include the percentage and number of homes and small- and medium-sized enterprises owned by black Zimbabweans, disaggregated by gender to measure the percentage and number owned by black Zimbabwean women.

**Feasibility and Cost-effectiveness.** USAID's investments will not only result in improved access to capital and the provision of shelter solutions to 44,000 families but will also (and, in the long run, more importantly) spur market changes resulting in increased efficiencies for all business operations as communications and transport facilities become more widely available and responsive to customer needs. Increased business ownership and investment will result in increased employment opportunities, foreign exchange earnings, and, ultimately, greater black participation in the economy.

**Progress in 1993-1994.** Through the Private Sector Housing Program, the GOZ has revised housing and infrastructure standards to increase affordability such that a new minimum housing unit is affordable to 70% of the urban population, up from 23% previously. USAID has also leveraged an unprecedented increase in the availability of private sector mortgage financing for low-income families (\$16.5 million for 1994). It is estimated that over 19,000 low-income families will benefit from mortgage loans under the initial disbursement, thereby increasing black ownership and creating a pool of assets that can be used as collateral for business investments. Additional USAID assistance in the

private sector has supported strategic interventions that have leveraged important reforms and a general opening of markets and government re-orientation. Work with the Zimbabwe Investment Center not only provided the analytic rationale for striking investment reforms early in 1994, but also will facilitate improved operations and implementation of the new policies in the future leading to increased investment from both domestic and foreign sources. USAID also assisted in the review and drafting of revised legislation regarding restrictive business practices. The measure, which is now being vetted by Parliament, will provide increased opportunities for new business development and market entry, particularly by indigenous (black) entrepreneurs. Direct firm-level assistance has also resulted in improved profits and employment opportunities, with an emphasis on small and medium size firms with black or women owners. Finally, assistance to the National Railways of Zimbabwe (NRZ) has resulted in improved operating efficiency and the spinning off of a number of non-core services to the private sector.

**Donor Coordination.** USAID is the largest donor in the low-income shelter sector in Zimbabwe, and the World Bank is the only other donor of significance. USAID and the Bank coordinate their activities closely, with the Bank focusing on off-site infrastructure development and USAID concentrating on increased availability of private sector financing for the low-income shelter sector. Donor coordination for private sector development activities on deregulation, small enterprise development and the financial sector is also fairly well developed. The Small Scale Enterprise Advisory Development Group, which has been operational since the early 1990s, serves as a clearinghouse to coordinate donor, GOZ, and private sector programs for small enterprise activities. This is the most active forum for donor coordination and exchange of ideas. In addition, specific issues relating to private sector development, e.g., investment policy and development of trade policies, arise periodically and are instrumental in bringing together various donors with an interest in the particular topic. Donor coordination under NRZ is practically a given, as the effort is part of a multi-donor activity involving the World Bank, African Development Bank, and other bilateral donors.

**Constraints.** Implementation of the low-income shelter program is complicated by the number of organizations involved and the complex, disjointed nature of the Zimbabwean housing delivery system on the other. Under the NRZ activity, a recent project evaluation showed that bloated staff levels were a major constraint to the improved operating efficiency of the organization. Accordingly, a recent project amendment included provisions for one-time assistance to a voluntary early retirement scheme (VERS).

**Cross-Cutting Issue. Decreased HIV high risk behavior by selected occupational groups (\$4,400,000).**

The Government estimates that there are 800,000 HIV positive Zimbabweans out of a total population of 10.4 million, for a national infection rate of approximately eight percent. Some prenatal surveys, however, indicate that as many as 25% of pregnant women are HIV positive, and most doctors and insurers believe that this figure is a more accurate indicator of the effective rate among the sexually active population. Hardest hit are those in the age groups of 15-49 years, who account for 75% of all cases in the country. Thousands of children are left orphaned by AIDS annually; it is estimated that there will be 500,000 orphans by the year 2000. Given the potentially staggering economic and social impact of this phenomenon, USAID has chosen decreased HIV/AIDS high risk behavior as a "target of opportunity" for specific intervention under its overall assistance program.

**Activities.** Under the Zimbabwe AIDS Prevention and Control activity (ZAPAC), USAID is assisting GOZ efforts to change high risk behavior by selected occupational groups, i.e., transportation workers and members of the uniformed services. USAID is providing support to the GOZ, the National AIDS Coordination Program (NACP), appropriate local businesses, and non-governmental organizations to strengthen HIV-prevention activities aimed at high risk populations. The project is being implemented over a five-year period (FY 1993-98) at a total cost of \$14.4 million.

**Related Activities.** The ZIMMAN II Project has supported activities in this area through the provision of practical management training for local non-governmental organizations managing or coordinating HIV/AIDS projects.

**Indicators.** Progress is measured through survey data on condom use in most recent sexual intercourse and the number of sexual partners in the previous month (percent/number of respondents).

**Feasibility and Cost-effectiveness.** Without USAID and other donor investment in the prevention and control of the HIV/AIDS epidemic, the economy of Zimbabwe will suffer considerable damage. Projections indicate that reductions in GDP (as high as six to seven percent) will occur due to reductions in the size of the labor force as a result of the epidemic. The emphasis on AIDS prevention in the workplace is expected to have high economic payoffs since it will avert deaths in the labor force and reduce re-training costs. Furthermore, savings in medical costs and social services (for AIDS orphans and other dependents of AIDS victims) are expected as a result of successful prevention among high-risk working age populations.

**Progress in 1993-1994.** The project began implementation in mid-1994. By December, a \$1.0 million grant had been issued to the United Nations Children's Fund (UNICEF) for information, education and communication (IEC) activities in tertiary educational institutions (universities, technicians, vocational training institutes, professional colleges, etc) and funds provided to Family Health International/AIDS Control and Prevention Project (FHI/AIDSCAP), the major contract group under this project that recently established offices in Harare.

**Donor Coordination.** Many donors (Sweden, UNICEF, the European Union, Denmark, the World Health Organization, Great Britain, the Netherlands, etc.) are involved in HIV/AIDS related activities in Zimbabwe. These activities are coordinated through the National AIDS Coordination Program.

**Constraints.** There is a general lack of appreciation by employers of the benefits relative to the costs of conducting AIDS awareness and prevention activities in the workplace. Since employers bear a significant portion of the costs of these activities, it is essential that these benefits (e.g., increased productivity and reduced downtime due to absences and employee deaths) be demonstrated conclusively. In addition, a great deal more work must be done to actually identify appropriate incentives to modify actual behavior among participants.

**STABILIZING POPULATION GROWTH (\$7,885,494 of which \$7,085,494 DFA and \$800,000 DAF).**

**SO 3. Sustainable decrease in fertility (\$7,885,494).**

Despite significant progress in the difficult demographic transition, population growth in Zimbabwe is a persistent problem that continues to undermine economic growth and personal family goals, erodes the natural resource base, and limits the potential household and individual benefits of economic growth. With USAID as the lead donor in the family planning domain since 1984, modern contraceptive prevalence rates are increasing dramatically and fertility is decreasing at a very encouraging pace; but the annual population growth continues to be high at about 3.1%. Accordingly, the Mission has identified a sustainable decrease in fertility as its third strategic objective.

**Activities.** Designed in 1990, the Zimbabwe Family Planning (ZFP) Project aims at diversifying the contraceptive method mix. The project supports the GOZ's efforts to increase availability of and access to a greater range of modern family planning methods, particularly longer-term and permanent methods, as well as research and training to improve contraceptive use and prevent contraceptive failure. The project is moving the Zimbabwean family planning program in the direction of financial sustainability by shifting a portion of the cost burden from the GOZ to the private sector and making the public sector program more cost efficient. The project is also strengthening non-financial aspects of the public sector family planning program to make it more effective, cost-efficient, and sustainable.



**Related Activities.** USAID regularly uses a portion of its annual operating year budget to purchase contraceptives for distribution in Zimbabwe from the centrally-managed Central Contraceptive Procurement Project.

**Indicators.** Progress is measured by monitoring changes in the country's total fertility rate and the contraceptive prevalence rate, currently about 4.4 and 48%, respectively.

**Feasibility and Cost-effectiveness.** USAID funds support increased use of long-term contraceptive methods, increased sustainability of public sector provision of family planning services, and an increased role for the private sector in the delivery of family planning services. Indications to date are that these are the key areas required to achieve even greater decreases in total fertility. With an ever increasing health burden, further complicated by the advent of HIV/AIDs and reduced public sector budget resources, achievement of ambitious targets for this strategic objective in a timely manner becomes essential.

**Progress in 1993-1994.** Family planning efforts continue to achieve significant results--building upon increased contraceptive prevalence rates and a decreased fertility rate--successes that USAID helped the GOZ obtain. The introduction of Depo-provera has been particularly successful, with 50,000 acceptors by the second year of its introduction. The family planning program has also made a number of accomplishments in the area of increased sustainability, especially with regard to sustainable public sector financing as the GOZ has begun to procure its own oral contraceptives thereby reducing reliance on donors. In FY 1993 it purchased 21% of its needs at a cost of \$365,000 and in FY 1994 set aside approximately \$600,000 to purchase 25% of its needs. The program has also made significant strides in cost recovery, recuperating up to 56% of contraceptive costs through user fees in 1993. These are encouraging trends.

**Donor Coordination.** The World Bank's Family Health Planning II and United Nations Fund for Population Activities (UNFPA), developed concurrently with the ZFP Project, support USAID's strategy in this sector.

**Constraints.** Despite impressive gains, the family planning program faces daunting challenges. One is that the population growth rate and the total fertility rate (TFR), though declining, remain high. The 1992 census found that between 1982 and 1992 the population had grown from 7.6 million to 10.4 million, for an inter-censal growth rate of 3.13% per year. The second major challenge is in the area of health finance. In the first decade of independence the health budget grew steadily. In the last four years, however, real per capita expenditure by the Ministry of Health and Child Welfare (MOHCW) has fallen by 34%. The Reproductive Health Finance Project--currently in the design stage--will address health financing issues beginning in FY 1996, with particular emphasis on ensuring continued, sustainable financing for family planning and HIV/AIDs prevention services.

#### **PROTECTING THE ENVIRONMENT (\$3,575,000).**

Along with grain marketing reform and agricultural research on millet and sorghum (discussed above under SO 1), the other major aspect of USAID's work under SO 1 is a dual-purpose effort to increase rural incomes and protect Zimbabwe's natural resource base. USAID is proud of its effort in this domain which now serves as a model for other country programs. The program is carried out under the initiative known as CAMPFIRE (Communal Areas Management Program for Indigenous Resources), which is world-renowned for its decentralized, village-based approach to wildlife preservation. In conjunction with the National Parks Department, CAMPFIRE determines the wildlife carrying capacity of villagers' land and then helps them auction off hunting licenses, the proceeds of which for the most part flow directly back to the villagers themselves. The result is better wildlife management and increased incomes at the local level. The program has been so successful in establishing and strengthening local institutions and enhancing their capacity to manage and exploit resources on behalf

of resident communities that USAID funded the expansion of the program to nationwide coverage in FY 1994.

**Activities.** Activities under this portion of SO 1 are carried out through the \$28.1 million Natural Resources Management Program (NRMP), which began in 1989 under regional funding auspices and is now being funded as a purely bilateral activity.

**Related Activities.** CAMPFIRE is set within a larger context of the theory and practice of common property management, community development, and environmental conservation. As such, the spectrum of activities that can conceivably be carried out under the program's flexible design is really quite wide. Examples might include policy reforms aimed at strengthening local control over non-renewable resources and support for the development of eco-tourism.

**Indicators.** Progress in this sector is being measured through average household cash income from participation (and the number of households actually participating in) community-based natural resource management activities.

**Feasibility and Cost-effectiveness.** The protection, conservation, and sound management of renewable natural resources through indigenous government and non-government organizations yields both monetary and non-monetary benefits. Well-developed management institutions function at the community level to ensure sustainable local development, while the preservation of biological diversity ensures the continued richness of our planet's natural legacy.

**Progress in 1993-1994.** In 1993-94 six new districts were incorporated within the CAMPFIRE program, bringing the total number of participating district councils to 24. CAMPFIRE currently covers 18% of Zimbabwe's communal lands and touches the lives of nearly a million people every day. In 1993 the program generated cash revenues in excess of about US\$ 1.25 million, the bulk of which was plowed back into community-based conservation and development activities. As noted, this program was expanded to nationwide coverage in 1994 and now serves as a regional model of sustainable development encompassing environmental aspects, income generation and empowerment of local populations to make decisions on community resources for their own benefit.

**Donor Coordination.** While USAID is the single largest external donor supporting CAMPFIRE, many others are also involved, including Great Britain, Germany and the Ford Foundation. These donors meet on a monthly basis to coordinate their programs and discuss progress toward mutually agreed-upon objectives.

**Constraints.** CAMPFIRE implementation is constrained by two factors: (1) continuing debate among competing entities over the level and extent of "appropriate authority" that has been delegated to the district councils; and (2) budgetary constraints that result in an inability on the part of the Ministry of Environment to fully finance and support the operations of the Department of National Parks and Wildlife Management.

#### **BUILDING DEMOCRACY (\$226,523).**

Limited funding is provided through a U.S. Embassy-managed program which concentrates on the need to prepare voters for the 1995 general elections and problem areas that were highlighted in the 1993 Human Rights Report.

**Other Donor Resource Flows.** According to the United Nations Development Program, the United States presently provides nearly 12% of external donor assistance to Zimbabwe. Other major donors and international financial institutions include the World Bank, the International Monetary Fund, the African Development Bank, the European Union, the United Kingdom, Germany, Japan, Sweden, Denmark and Canada.

**ZIMBABWE  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Increased household food security in communal areas of Natural Regions IV and V.	1,100,000	--	3,575,000	--	4,675,000
2. Increased black ownership and investment at all levels of Zimbabwe's economy.	6,200,495	--	--	--	6,200,495
3. Sustainable decrease in fertility.					
Dev. Fund for Africa	--	7,085,494	--	--	7,085,494
Dev. Assistance Fund	--	800,000	--	--	800,000
<b>Cross-cutting Issues:</b>					
Democratic Participation	--	--	--	226,523	226,523
Decrease of HIV high risk behavior.	4,400,000	--	--	--	4,400,000
<b>Total</b>	<b>11,700,495</b>	<b>7,885,494</b>	<b>3,575,000</b>	<b>226,523</b>	<b>23,387,512</b>

USAID Mission Director: Peter Benedict

## AFRICA REGIONAL PROGRAMS

<b>FY 1996 Development Fund for Africa Request:</b> .....	<b>\$48,845,542</b>
<b>FY 1996 Development Assistance Fund Request:</b> .....	<b>\$100,000</b>
<b>FY 1996 Economic Support Fund Request:</b> .....	<b>\$14,350,000</b>
<b>FY 1996 P.L. 480 Title II:</b> .....	<b>\$13,370,000</b>

### INTRODUCTION.

This section presents information on both Africa-wide regional programs (sub-section A) as well as Sahel-based regional programs (sub-section B). In addition, included in this section are: the African Economic Policy Reform Program (AEPRP -- sub-section D); the Economic Support Fund financing for the Africa Regional Democracy Fund (sub-section E); P.L. 480 Title II food assistance provided to Burkina Faso and Cape Verde (sub-section F); and assistance to small countries where limited activities are authorized; and regional assistance to certain countries where USAID has ended or is ending its bilateral assistance programs (sub-section C).

**A. AFRICA REGIONAL PROGRAM** (\$33,798,904 DFA of which \$20,834,615 is for Encouraging Economic Growth, \$2,306,891 is for Stabilizing Population Growth, \$9,562,398 is for Protecting the Environment and \$1,095,000 is for Building Democracy).

By far the greatest proportion of USAID's assistance to Africa is provided through bilateral programs in the field. However, these bilateral programs are supplemented by a regional program which strengthens or assists USAID field missions. There are four important purposes that the regional program performs:

- (1) The regional program provides a mechanism to reduce costs of bilateral activities by taking advantage of economies of scale;
- (2) The regional program works with a number of regional institutions that are, perhaps the precursors to the Africa of the twenty-first century, an Africa built upon regional cooperation;
- (3) The regional program has been used as a catalyst to help USAID African missions begin programming quickly in areas that are new for them. This happened in the 1980s when the new emphasis on policy reform was guided by the African Economic Policy Reform Program (AEPRP) in support of private sector programs, and when fighting HIV/AIDS became an important development issue. In the 1990s, the regional program has been an important mechanism for helping the bilateral programs design new democracy and governance projects and support free elections.
- (4) Finally, the regional program supports program and policy-relevant research. What Africa most needs is new, better ideas; ideas that will increase the effectiveness of the donor and African resources already committed to sustainable development on the continent. For example, what are the problems associated with decentralization? How can USAID better support privatization? What are the best practices in providing child health and family planning services? Africa is a very complex environment for development. USAID has learned much and the programs of all donors are now much more effective than they were in earlier decades.

The USAID regional program in Africa supports the five Agency sustainable development strategy objectives.

**SO 1. Encouraging broad-based, sustainable economic growth (\$18,774,615 in DFA).**

The Africa regional program focuses on three separate outcomes: (1) increasing the level of human resource development in Africa, (2) improving the policy and institutional environment for broad-based sustainable economic growth, and (3) helping to increase productivity and production in the agricultural sector.

Activities in Human Resource Development. In the long run, the most important determinant of successful development is the establishment, of an educated, healthy labor force. The regional program has been supporting USAID's unique approach to basic education in the African region by participating in the design of every basic education program, and working directly with the World Bank and other donors to champion education reform. In the area of advanced training, the regional program has supported two major training activities -- the graduate fellowship program, Advanced Training for Leadership and Advanced Skills (ATLAS) and the short-term Human Resource Development for Africa (HRDA) projects. The regional program provides core management support, thus saving bilateral missions overhead costs by taking advantage of economies of scale.

The regional program also has supported a multi-donor organization, the African Economic Research Consortium (AERC). The AERC's purpose is to help upgrade the quality of economic training and research in Africa. It does this through a very small staff which, last year, became completely Africanized. The AERC, in turn, supports a network of faculties of economics to help them to provide masters degree programs in Anglophone Africa (excluding Nigeria). Many, if not most of the 13 universities in the network tried to run masters' programs, but they lacked the capacity to do it effectively. By joining together, and providing education at only five, higher quality institutions, they increased quality and reduced cost. Perhaps most important, the whole integrated Masters' program idea came from the African universities themselves, launching a new spirit of cooperation.

In the child survival area, the regional program has been working with the United Nations Children's Fund (UNICEF) and the World Health Organization's African Office through the regional Expanded Program for Immunization to make immunization policy focus on sustainability. In 1993, USAID realized that UNICEF was reducing its support for immunizations (which had reached a high water mark the previous year) because donor funding was being reduced. The regional program provided an infusion of resources for UNICEF for maintaining the high level of immunizations, provided major changes were made. The new strategies for immunization focus on moving away from separate vertical programs such as immunization campaigns, and concentrating more on horizontal programs, i.e. the whole set of issues and interventions that improve child health, from immunization, to infant feeding habits, to contraceptives for mothers to increased time between pregnancies.

USAID has also supported (via a World Bank-administered trust fund) the regional Onchocerciasis Control Program (OCP) to control and prevent river blindness in West Africa. The OCP is widely hailed as the most successful vectorborne disease control program in history as well as one of the most successful USAID-funded health projects.

Activities in the Development of an Enabling Environment for Private Sector-led Growth. One of the most dramatic changes in Africa has been the shift from a development strategy that emphasized state control of the economy to one which sees the role of government to be creating an environment in which the economy will grow through the efforts of the private sector.

The regional program has supported a number of efforts to help USAID Missions improve the economic policy environment. For example, the program has supported a project called Implementing Policy Change (IPC) which has been used in a number of African countries to help the process of policy reform become more African led and designed. In the area of private sector development, USAID has supported several initiatives through the African Private Enterprise Fund (APEF) to develop indigenous business leadership, the most prominent of which, is the African Business Roundtable, a West African organization that links business people and gives them an opportunity to share experiences, to speak with one voice in policy issues that are important to them, and to facilitate interaction (and investment)

between African entrepreneurs and foreign investors, particularly, Americans. The regional program has also supported the World Organization of Credit Unions which provides technical help to nascent African national credit union associations, thereby supporting the many USAID bilateral programs which work with local credit unions.

In agricultural development, USAID's regional program has been working, through the Policy Analysis, Research and Technical Support (PARTS) project to improve African agricultural research institutions, agricultural marketing (of both inputs and commodities), and agricultural policies. Agriculture has to be the main growth sector in most African countries, because it is so central to the economy and because most of Africa's poor earn their livelihoods through agriculture and related industries.

Several USAID activities have focussed on strengthening the networks that transmit new agricultural research discoveries from the International Agricultural Research Centers to the African National Agricultural Research Institutions (NARS). USAID has been promoting increased African ownership of the networks, regional specialization (for example, Mali might emphasize millet research while Niger would emphasize millet), and promoting more effective management of the NARS through strategic planning and evaluation.

USAID, through PARTS, has been supporting the Food Security project which provides, through Michigan State University, analytic support to countries trying to improve their policies in agriculture, particularly in basic food crops.

Progress in 1993-1994. Because of the diversity of the program, progress will be discussed in terms of particular activities.

Human Resource Development. New data from the African Graduate Education project, of which ATLAS is a new and improved version, shows that of the three thousand graduates of that program, which supports both Masters level and Ph.D. level study, 90% finished their degrees (compared to 50% for American students) and that 90% returned to their country of origin.

In health, the OCP has resulted not only in significantly reducing the incidence of blinding caused by this parasitic disease, but also in allowing people to return to an estimated 15-25 million hectares of productive farmland, which was largely unused because of this parasite. USAID is supporting the sustainability of this effort by integrating the required OCP functions into the national health infrastructures of its target countries by 1997.

The Enabling Environment for Private Sector-led Growth. One of the outcomes of the Implementing Policy Change program was a major USAID/World Bank/African examination of livestock trade in West Africa, which pinpointed many policy constraints in taxation and regulation. As a result of this program, Burkina Faso changed its livestock policy, and herder associations and importers were strengthened sufficiently to reduce illegal checkpoints and extortion in Cote d'Ivoire. This has reduced costs to middlemen and led to increased prices to herders and decreased prices for consumers.

Agriculture. One result of USAID activities in agricultural research has been rapid spread of new disease-resistant potato varieties in East and Central Africa which means greater availability of an inexpensive staple food for millions of poor people in the region. Studies USAID has conducted to assess rates of return from various agricultural technology investments has led to much greater emphasis on impact assessment by a number of national and regional research institutions. This is expected to substantially improve these institutions' ability to make decisions about which technological developments are likely to have the biggest economic impacts and thus get the biggest bang from their scarce resources.

The analytic efforts of Michigan State University have led to many important results. In Zimbabwe, for example, studies on corn marketing were instrumental in causing the government to radically reform

its policies. Once, all corn (the key staple food) was bought by a government parastatal, brought to one of four large-scale mills in the capital, Harare, processed, and then sold as flour in both urban and rural areas. This meant very large transport costs and very large profits for the large-scale mills. When marketing was liberalized, entrepreneurs throughout the country were able to start small hammer mills which processed the corn into a much coarser, more nutritious meal. As a result, 40,000 new hammer mills were started within three years, producing around 100,000 jobs, and the cost of maize to the consumer dropped 20%, even when the large government subsidy was eliminated. Perhaps, the most effective way to reduce poverty in the short run is to reduce the price of what the poor eat.

## **SO 2. Improved management of the environment (\$8,122,398).**

**Activities.** The USAID regional program focuses largely on improving the policies, strategies and programs for managing the environment. It does this in several ways. First, through the PARTS project, by developing a strategic framework which helps USAID missions decide how to promote conservation in such a way as to contribute to economic growth objectives. Perhaps the most important message that the regional program has been pushing has been the idea that growth and environmental management are mutually supportive rather than being conflictive.

Second, the USAID regional program strengthens a variety of environmental groups, both American and African, in linking conservation to improved economic opportunities for rural people. Third, USAID works closely with the World Bank and other donors in Africa through the Multi-Donor Secretariat and the Network for Sustainable Development in Africa to support the process of developing National Environmental Action Plans. The purpose of these plans is: first, to involve all the organizations, private and public, with an interest in protecting the natural resource base, in a participatory process that the people and the government can buy into; second, to ensure that environmental concerns are carefully integrated into development policies and strategies; and third, to serve as a mechanism for coordinated programming of donor resources.

**Progress in 1993-1994.** While there have been many successes at the local level (for example, the agricultural research program in Mali has transferred to farmers over twenty new technologies to conserve soil and water), most African countries are still far from moving from local success to national successes. Nevertheless, USAID and its partners are learning as local level activities are undertaken and are working to expand these activities on a national basis. Nowhere is this clearer than in Madagascar, where local and international nongovernmental organizations (NGOs) are trying out different mechanisms to link local communities to biodiversity conservation.

These ideas work. In Zimbabwe and Botswana, many local communities have been given control over the large animals in the region. This provides a powerful incentive to maintain animal populations while harvesting them carefully for profit. The result has been doubling of income in many villages, which is shared among the villagers, but also used for local improvements such as schools and health centers.

## **SO 3. Decreasing population growth (\$2,306,891).**

**Activities.** Most of the responsibility for non-bilateral activities in the population area has been housed in USAID's new Global Bureau. The Africa regional program has two elements: (1) strengthening the analytical capacity of key African institutions, in particular, the Center for African Family Studies (CAFS) in Nairobi and the Research Center for Population and Demography (CERPOD), located in Mali; and (2) conducting operations research aimed at improving the effectiveness of family planning programs in Africa. Preliminary studies are examining ways to improve urban delivery systems and examining the costs and benefits of integrating population programs into the national health system.

USAID is working with the Japanese on a common agenda for aid to Africa in the population and health areas. One major change in Japanese assistance policy now allows them to buy consumables such as contraceptives, or HIV/AIDS testing kits. The idea is to use Japanese purchases of

consumables to complement USAID's programs to improve logistics, management, training, and policies in the family planning area.

Progress in 1993-1994. Both CERPOD and CAFS now have the capacity to do important analytic work on their own, and the regional program has used these organizations, which combine advanced training with deep African cultural knowledge, as researchers in the population area.

**SO 4. Strengthening democratic governance (\$1,095,000 in DFA).**

Activities. The Regional program focuses on three aspects of democratic governance:

A. The USAID regional program seeks to improve policies, strategies and programs to accelerate improved governance in Africa (1) by conducting assessments/studies of the status and direction of democratic institutions; and (2) building the capacity of African institutions to do the same, and by supporting an inclusive process of reforms that address institutional weaknesses.

B. Improving the accountability and responsiveness of public officials--by improving electoral laws, structures and processes, and by developing the capacity of civil society to ensure the openness and competitiveness of the electoral process; and

C. Accelerating the process of improved governance by improving the capacity of civil society groups to both provide improved decentralized governance and to demand improved governance at the national and local levels.

Progress in 1993-1994. While the major impact of USAID's analytical program is to help provide the basis for new mission democracy governance programs, an important result is the process's impact on African participants. For example, take the case of Cheibane Coulibaly. He heads a civic organization called the Association for the Protection and Strengthening of Democracy in Mali (ASARED). He was intimately involved in the Mali democratic governance assessment. ASARED has used the findings of the regional program assessment to inform the public and the government regarding the weaknesses of plans to pass decentralization legislation which ignored the 10,000 villages with a rich history of local governance. As a result of a broad lobbying initiative, the Government has pulled back from its initial plans and has now requested ASARED's participation in the drafting of a new bill.

The African Electoral Assistance Fund (AREAF) has been supporting African elections, providing assistance in areas like voter education and registration and election monitoring. This has been invaluable in ensuring confidence in these elections. For example, in Guinea, the National Republican Institute (NRI), a grantee under ARAEF, was involved in monitoring the national presidential elections. These elections were seriously flawed, as the NRI reported, and, as a result, USAID has eliminated its balance of payments support to Guinea, sending a clear message that the legislative elections must be free and fair.

More successful results occurred in Mozambique where a multi-donor election monitoring effort, in which USAID was particularly prominent, helped ensure that the national elections were free and fair, thus ending a 15 year war, and bringing bright hopes that Mozambique may at last be able to deal with major problems of poverty and underdevelopment.

**SO 5. Improving the capacity of USAID and African nations to respond to and avoid disasters (\$3,500,000 of which \$2,060,000 is in Encouraging Economic Growth and \$1,440,000 is in Protecting the Environment).**

Activities. The Regional program has been set up to provide assistance to bilateral missions in responding to and preventing major disasters. The two areas in which the regional program is



focussed is in predicting and mitigating the effects of drought and in responding quickly to grasshopper and locust outbreaks. The drought-fighting activity is USAID's Famine Early Warning System (FEWS) which is located in a large number of drought-prone countries, and which monitors weather patterns as well as economic and social factors such as food prices, livestock sales and migration. While FEWS is important as an early warning system it also functions to target food assistance to the areas most in need.

Locust and grasshoppers represent a perennial threat to Africa's food security. The African Emergency Locust and Grasshopper Assistance (AELGA) project provides quick and timely assistance to missions and countries where food harvests are threatened by outbreaks of locusts and grasshoppers. These activities save countless dollars in providing effective and immediate services.

Progress in 1993-1994. So far, wherever USAID's famine early warning system (FEWS) has been introduced, famines have never re-occurred. By providing more timely and appropriate information about emerging famine conditions to key decision makers, more appropriate pre-emptive actions can be taken to prevent famine conditions from developing. Not only can more well informed and timely actions translate into cost savings but, more importantly, also into the reduced loss of life among those facing the famine threat. This includes not only those who face famine risks directly but also others who feel the indirect impact. In 1992, the combined U.S. response to the southern Africa drought kept that climatic disaster from becoming a human tragedy. FEWS was instrumental in guiding the donor and African Government response.

In 1994, USAID realized that East Africa, already suffering from structural food deficits, large-scale refugee movements, and the emerging human disaster in Rwanda, would be overwhelmed if a drought occurred. Because of the early warning system, USAID was able to put in place a plan that could have saved perhaps millions of lives and donor resources. The rains did come this time and drought was a local, not regional, phenomenon. Nevertheless, the work of FEWS and quick action by the donors, ensured that food was provided to the most vulnerable groups and the drought did not result in famine.

**B. SAHEL REGIONAL PROGRAM** (\$241,036 DFA of which \$106,000 is for Encouraging Economic Growth, \$103,596 is for Protecting the Environment and \$31,440 is for Building Democracy).

The Sahelian states (Cape Verde, Mauritania, Gambia, Guinea-Bissau, Senegal, Burkina Faso, Mali, Niger, and Chad) are among the poorest in the world, with annual per capita gross domestic products (GDPs) ranging from \$200 to \$700. The states are characterized by high population growth rates, low literacy rates (none higher than 40%), especially among the female population (generally 20% or less), by a fragile ecological system, and by a largely rural population. The region is subject to recurrent droughts, which places over 70% of the population at risk due to their dependence on rainfed crops and animal agriculture. Overall, population densities are low, but, because a large portion of the land area is desert or near-desert, density per arable hectare is high and the already small forested areas are being depleted at approximately 2% per year. The regional program supports U.S. interests by increasing food security, thereby reducing the need for costly emergency assistance programs; by promoting political stability; and by encouraging free-market development. The Sahel Regional program complements USAID's bilateral programs in West Africa by supporting intraregional dialogue on and agreements to foster economic growth, democratization and food security that are beyond the scope of bilateral relations but vital to sustainable economic and social progress in the region. Although bilateral programs have been closed in some of these Sahelian states, limited activities will continue where participation is essential to regional cooperation.

#### **The Development Challenge.**

The Sahel has a number of serious development challenges. The fragile ecological system, marked by historically high rates of deforestation, soil degradation and erosion, and a rapidly expanding population places a large portion of the population at continuous risk. Even in "good" years, the region has

pockets of high vulnerability. Food security is reduced further by low and highly variable rates of economic growth. Past attempts by governments to manage national economies using state owned and operated agricultural and industrial parastatal organizations and extensive regulation and taxation (both formal and informal) in almost all parts of business activity pushed a large portion of economic activity into the informal sector, where business training, access to credit and entry into regional and world markets are limited. The region has become more and more dependent on food imports (increasing annually at 12%), and export activity, vital to food security, has not kept pace (increasing annually at 5%). Only about 6% of total recorded trade is within West Africa.

The Sahel has a number of development constraints, but there are opportunities. The states have recognized that they are interdependent, both among themselves and with the coastal states, and have taken steps to adjust to this reality. One of the oldest and most positive steps was the creation of the Permanent Interstate Committee for the Control of Drought in the Sahel (CILSS) which, despite the high food vulnerability of the region, has been credited with helping to avoid famine by increased coordination both among CILSS states and with the donors in the Club du Sahel consortium. Jointly, CILSS and the donors have established one of the best early warning/monitoring systems in Africa. CILSS has also recently expanded its "mandate" to include relations with coastal states, which represent important markets for both inputs and locally produced goods. Finally, there is a growing emphasis on greater participation at all levels of civil society.

Until recently the bloc of West African countries which use a common monetary system, the African Franc Community (CFA) franc, employed monetary and fiscal policies which held inflation at low levels relative to the non-CFA countries, but which also destroyed their competitiveness in the world markets on which they are so dependent. Industry collapsed, to be replaced by artificially cheap imports, agriculture stagnated; and capital flight reached crisis levels. In January 1994 the countries in the CFA monetary unions devalued the CFA by 50%, the first devaluation since the currency was created in 1948. This devaluation, along with intensified structural adjustment programs and debt rescheduling, has placed these countries on a course which is much more optimistic for growth and development. The Sahel Regional Program is structured to advance this process.

#### **Donor Coordination.**

The special nature of the Sahel Regional Program is that it supports USAID membership and participation in the Club du Sahel. Direct Club members include Austria, Denmark, Italy, Japan, Switzerland, France, Germany, Canada, Netherlands and the United States. Several multilateral donors and agencies attend many of the coordination meetings, and the World Bank, the European Union, and the Food and Agriculture Organization sometimes finance special programs. The USAID program described below is planned and implemented collaboratively with the Club and CILSS, and represents USAID's comparative advantage.

#### **Strategic Objectives (SOs).**

The Sahel Regional Program is pursuing three strategic objectives, which together are contributing to increased food security and ecological balance in Sahelian Africa. The program is limited to regional activities, with the intent of addressing issues that cut across national boundaries, and which also complement bilateral programs.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$106,000).**

**SO 1. Assist national governments, regional institutions and private sector associations to identify, clarify, and implement policy options which promote trade and investment in the West Africa region (\$106,000).**

Through this objective, USAID pursues "broad-based economic growth" by addressing policy and regulatory impediments to the development of local markets and exports, especially the enabling environment affecting agriculture and commerce. To achieve the objective, debate at regional fora and analyses of monetary and trade issues of importance to West African countries and management of actual change in policy are supported.

**Activities.** The program supports two types of activities: (1) Sahelian-led dialogue on monetary and trade policy at the regional level; and (2) building capacity for private and public sector agents to identify and eliminate barriers to trade in the region. The first activity is primarily enhancing the capability of the African analysts, stakeholders and policy makers to carry out their own research and dialogue. The second is focused on building the institutions or structures that buttress stakeholder participation in the development and implementation of action plans by public and private sector groups. The program is active in eleven West African countries, via the West Africa Enterprise Network and the Mali-Burkina Faso-Cote d'Ivoire Livestock Action Plan. It also provides support to CILSS activities focusing on trade policy and policy coordination.

**Indicators.** Progress toward achieving this SO will be measured by the following indicators: (1) at least eight countries use comparative advantage as a basis for setting trade policy by 2002; and, (2) weighted transactions costs for regional trade of major commodities is reduced 20% by 2002. Transaction cost is defined to include the formal and informal costs associated with the movement of goods or the provision of services from producers to consumers. Lowering these costs will result in net income gains to producers, processors and consumers.

**Feasibility and Cost-effectiveness.** The West African community has come to understand that economic growth in the region must be shared. The coastal countries can provide growing markets for interior products and people, while the interior countries can provide a market for inputs and manufactured products. However, present recorded trade in the region is very low; in 1990 only about six percent of all ECOWAS (West African Economic Community) trade was within the community. The CFA-zone is somewhat better integrated, but even it had only about nine percent of total trade between member states (1991 to 1993). Formal and informal barriers to trade are one of the major reasons for this low rate of trade between nations in the region. Another barrier, the overvalued CFA, has recently been removed, so the feasibility of expanding growth through better regional cooperation has been strengthened. The approach taken by the Sahel Regional Program is to assist individuals and groups to understand the problem, to organize to discuss and debate the issues, and to develop and implement concrete action plans which lead to the progressive elimination of barriers. The cost is modest and there have been no significant problems in implementation. Supporting an African-led approach has enhanced both cost-effectiveness and feasibility.

**Progress in 1993-1994.** The Livestock Action Plan for Mali, Burkina Faso and the Cote d'Ivoire is the first of a planned series of action plans to be implemented under SO 1. Progress, as measured by the savings in transaction costs associated with marketing livestock between these countries, is conservatively estimated to be \$1.8 million in 1994. Impact is not limited to the effect on livestock marketing costs, because other commerce will also profit from reforms achieved through the implementation process. There are several kinds of positive impact: reduction in transaction costs - which may impact directly on traders' income, on lower retail prices, and on higher producer prices; increases in trade - which impact positively on incomes of all market participants; and generated indirect impacts - from economic activity to support increased trade and increased incomes.

The West Africa Enterprise Network as of 1994 has 300 business members in eleven West African country networks that, in turn, combine into a regionwide network. With USAID assistance, each country unit and the regional network has developed and is implementing a strategy statement and an action plan aimed at improving intraregional business conditions.

**Constraints.** The primary constraints are the risk of political instability, and the variety of monetary and commercial systems in the region. Commercial laws and regulations and traditional systems make it difficult to enforce contracts, and different monetary systems in the region make it difficult to complete transactions. Financial institutions are weak and in some cases they are not adapted to the needs of the private sector, especially to smaller firms and women owned businesses. Structural adjustment programs are addressing these issues, but it will take time before the benefits of these adjustments are available.

**BUILDING DEMOCRACY (\$31,440).**

**SO 2. Regional dialogue increased on the role of civil society and communal, local and national governments in achieving improved governance of natural resources, food security, and market development (\$31,440).**

By promoting dialogue among private and non-governmental institutions, SO 2 addresses USAID's "building democracy" strategy of focussing on the "absence or weakness of intermediary organizations, such as labor unions, business associations, media outlets, educational institutions, and civic groups." The topics of the analysis and dialogue promoted by SO 2 support the USAID strategy of protecting the environment and encouraging broad-based economic growth. This strategic objective responds to the need for institutionalized economic and political participation and decentralized democratic governance in order to sustain improvements and ensure program impact. Attention is focused on strengthening institutions through regional networking and dialogue to support the development of a vibrant and effective partnership between civil society and government entities from the community to the national level. Experience has shown that devolution of governance in the Sahel improves the effectiveness of natural resources management, contributes to food security and allows local markets to flourish; hence this SO cuts across and reinforces the other two SOs.

**Activities.** Three activities are being undertaken to achieve the strategic objective: (a) strengthening the capacity of groups in civil society - particularly representatives of grassroots-level interests - to actively participate in the dialogue, (b) supporting their actual attendance at regional conferences, and (c) supporting the development by Sahelian institutions of materials that will serve as the basis of discussion at regional exchanges. These materials might include, for example, documentation of the special constraints faced by women, herders and other traditionally disadvantaged groups in obtaining and using natural resources; building a database of successful experiences in decentralized natural resource management; and public service provision and documentation of alternative tenure conflict resolution practices.

**Indicators.** Indicators are: numbers and quality of regional discussions on the role of civil society and government at various levels in improving management of natural resources and public service delivery, food security, and market development; and relevant stakeholders included in planning, implementing and follow-up of the discussions. By 2002 USAID expects that eight of the nine CILSS countries will have undertaken broad public reviews of land tenure issues, and will also have formed participatory national commissions to deal with decentralization policy and legislation.

**Feasibility and Cost-effectiveness.** The movement toward democracy and democratic governance gained momentum in Africa only within the last five years. The process of democratic reform is complex and lengthy. This strategic objective, by promoting understanding and dispelling fears about democracy through conducting analyses, disseminating factual information, developing strategy options, and promoting communication, will provide critical inputs for West Africans as they work through this process. This approach has been selected as the most cost-effective way to help West Africans improve participation in civil society, the alternative is chaos and social collapse, or a return to failed autocratic systems of the past.

**Progress in 1993-1994.** A CILSS and Club du Sahel-sponsored Regional Conference on Land Tenure and Decentralization was held in Praia, Cape Verde, June 20-24, 1994. The conference was the result of a four-year series of CILSS and Club studies and meetings, catalyzed with USAID funding and expertise, which have documented the experiences of some countries with an enhanced role for civil society in the delivery of public services and natural resources management. In line with the CILSS environmental mandate, and member country as well as donor concerns, the studies and meetings have emphasized the nexus among local-level, decentralized control of resources; renewable natural resource management and land tenure issues affecting sustainable land use patterns.

Participation in the conference included large numbers of well-prepared representatives of peasant groups, the Sahelian press, the private sector, NGOs as well as locally elected office holders balancing the more typical contingent of donor and state representatives and foreign consultants. The outcome, embodied in the Praia Declaration, consists of very substantive policy recommendations which, for instance, bear on the legal recognition of local institutions, the authority of citizens to constitute new jurisdictions and the recourse of citizens faced with arbitrary decisions. In a written "platform" the peasant representatives requested that (1) CILSS establish a permanent committee to monitor the implementation of the Praia recommendations and proposed that their network of peasant organizations be incorporated into the process, and (2) the network be accorded observer status at all CILSS meetings which concern peasant organizations. The "platform" was accepted by the CILSS member states and is now being implemented.

**Constraints.** In some African countries political unrest and uncertainty are the major constraints to the full participation of individuals in the political and economic development in the region. Elite groups and coalitions will face loss of traditional sources of power, prestige and wealth, all of which may threaten the orderly transition to more democratic, more participatory systems.

#### **PROTECTING THE ENVIRONMENT (\$103,596).**

**SO 3. Decision makers have ready access to relevant information on food security, population and the environment (\$103,596).**

SO 3 facilitates the access of decision makers to important environmental and food security information and improved monitoring systems generated by West African institutions.

**Activities.** Program activities are implemented through USAID projects which provide support to regional institutions under the CILSS umbrella (CILSS headquarters; the Sahel Research Institute [INSAH]; the Center for Studies and Research on Population [CERPOD] and the Regional Agroclimatological, Hydrological and Meteorological Institute [AGRHYMET]). Program support to AGRHYMET and CERPOD helps them provide services to CILSS member states (resource monitoring; technical training; early warning; population policy, strategy, and action plan development). Support to INSAH helps with institutional development and the provision of services to member states (natural resource management, agricultural policy and food security analyses and related dialogue).

**Indicators.** Number of countries whose policies and concerted actions for food security, natural resource management, and population reflect sound development methodologies and analyses, supported by regional natural resource and population information systems.

**Feasibility and Cost-effectiveness.** West African, and particularly the Sahelian states have committed to improved regional cooperation. Numerous regional institutions and many "conventions" have been created. While the history of these institutions has not been as positive as hoped, they continue to evolve and adapt. The CILSS, via its recent reorganization, has shown a willingness to undergo significant reform, as have the economic and monetary unions in the CFA countries through their recent reorganization. The activities supported by the regional program are aimed at increasing the capacity of West Africans to guide their own institutions in their own interests, so feasibility is

maximum. A large portion of the program is aimed at increasing and improving coordination between and among donors and Sahelian states, so cost-effectiveness is also maximized. Finally, by addressing critical information and training needs at the regional level, costly duplication is minimized and economies of operation are maximized.

Progress in 1993-1994. The CILSS system has been implementing a major reorganization, so many of its activities were suspended during 1993-94. During this transition period, USAID helped to establish financial and administrative systems for the "new" CILSS. Despite the reorganization, CERPOD and AGRHYMET continued to operate. AGRHYMET has expanded its role as a data and information center and has become a more active participant in analysis and dissemination of spatial data -- resources, population, and economic data. It collaborated with CERPOD in preparing a well-received and unique-among-African-delegations presentation for the World Population Conference held in Cairo in September 1994. Similar collaboration will be established with INSAH, the other major institution at CILSS. CERPOD has helped all nine CILSS countries and several other West African nations prepare population policy statements. Six of the nine CILSS nations have formally adopted the population policy statements as national policy aimed at moderating population growth rates. Extensive research was completed on population dynamics, and training in research methods for West African professionals was carried out. CILSS has completed its first three-year workplan, which will guide the institution's activities and help to focus donor assistance.

Constraints. The ability of the West African, and particularly the Sahelian, states to sustain levels of financing needed to support regional institutions is a major constraint. Careful management, identification and pursuit of common priorities, and coordinated donor support can help overcome this constraint.

#### **Other Donor Resource Flows.**

The composition of donor flows to the Club du Sahel is divided into two parts -- support to the work program and support to the Club's operating expenses. The Club's annual budget (both categories combined) is approximately \$3.5 million, not including financing for special projects. The United States is the largest donor (28% in 1992), followed by Canada (23%), the Netherlands (17%), Germany (12%), and France (9%).

Donor flows to CILSS are composed of direct financial and project support and the funding of limited direct technical assistance. Since CILSS was reorganizing for the last two years, the level of financing has been relatively low. However, key institutions -- CERPOD and AGRHYMET -- have continued to operate with funds provided by various organizations. Total donor flows to CILSS (as an institution) totaled about \$45 million in 1994. Major contributors are, the United States, Germany, France, Italy, and the European Union. Other contributors include the United Nations, Canada, Netherlands and Belgium. USAID accounted for 6% of the total (30% of CERPOD's total, 7.5% of AGRHYMET's total, and 23% of CILSS headquarters total in 1994).

**C. OTHER COUNTRY ACTIVITIES** (\$6,405,602 including \$6,305,602 DFA of which \$4,027,425 is for Encouraging Economic Growth, \$151,325 is for Stabilizing Population Growth, \$282,179 is for Protecting the Environment and \$1,844,673 is for Building Democracy and \$100,000 DAF for Stabilizing Population Growth).

USAID maintains bilateral development activities in two countries, without the benefit of in-country direct hire USAID staff - Sao Tome and Principe and Sierra Leone. The limited portfolio of activities in these countries consists of private voluntary organization grants, Ambassador's Special Self-Help Program, Section 116(e) Human Rights grants, and small-scale Peace Corps partnership activities.

USAID also funds, on a very limited basis, activities in nine countries where the Agency has ended its bilateral assistance program and closed its mission. By the end of FY 1996, all nine of these missions

will be closed: Botswana, Burkina Faso, Cameroon, Cape Verde, Chad, Cote d'Ivoire, Lesotho, Togo and Zaire. In these nine countries USAID will fund, through regional mechanisms, activities which support U.S. interests. These activities include Ambassador's Special Self-Help activities, Section 116(e) Human Rights grants, small-scale Peace Corps partnership activities, and regional projects where a country's participation is integral to a project's success in addressing critical global concerns such as HIV/AIDS.

There are a few other countries - Comoros, Djibouti, Equatorial Guinea, Gabon, Seychelles, Mauritania and Mauritius, where USAID has never maintained a presence or has closed its mission (e.g., Mauritania), or ended its bilateral programs (e.g., Comoros, Equatorial Guinea, Mauritius). However, as with the other small countries, USAID does provide funds through Ambassador's Special Self-Help Program, Section 116(e) Human Rights grants, and small-scale Peace Corps partnership activities.

**D. AFRICAN ECONOMIC POLICY REFORM PROGRAM (AEPRP) (\$8,500,000 DFA of which \$3,485,000 is in Encouraging Economic Growth and \$5,015,000 is in Protecting the Environment).**

Between 1985 and 1994, USAID has funded 36 economic policy reform programs in 23 African countries. These programs helped bring about critical policy changes in important areas such as agricultural marketing and girls' education, combining technical assistance, studies, dollars and local currencies in a coherent package, with dollar disbursements linked to the satisfaction of specific conditions. Through the AEPRP mechanism in FY 1994, \$15 million in assistance was provided to West African countries to supplement the impact of the devaluation of the West African franc.

**E. AFRICA REGIONAL DEMOCRACY FUND (\$14,350,000 in Building Democracy - Economic Support Funds).**

The Africa Regional Democracy Fund will promote democratic governance and basic respect for human rights through programs managed by African and U.S. nongovernmental organizations (NGOs). The Fund also will provide certain types of support for political transitions. The assistance through NGOs is critical, especially in countries where no USAID mission is present to manage bilateral projects. The Fund will also reinforce and complement DFA-funded bilateral democracy activities.

**F. P.L. 480 TITLE II (\$13,370,000 for Humanitarian Assistance).**

Through the P.L. 480 Title II, Food for Peace program, USAID provides agricultural commodities to support both emergency feeding programs and regular development programs. The P.L. 480 Title II request incorporated into this regional presentation is for two countries: (1) Cape Verde where the food program is planned for its final year and 2) Burkina Faso where bilateral development assistance is terminating in FY 1996, the food aid will continue to support a significant national food aid nutritional program.

**AFRICA REGIONAL PROGRAMS <sup>(1)</sup>  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Encouraging Economic Growth	25,593,040	--	--	--	--	25,593,040
2. Protecting the Environment	--	--	13,523,173	--	--	13,523,173
3. Stabilizing Population Growth						
Dev Fund for Africa	--	2,458,216	--	--	--	2,458,216
Dev Assistance Fund	--	100,000	--	--	--	100,000
4. Building Democracy						
Dev Fund for Africa	--	--	--	2,971,113	--	2,971,113
Econ Support Fund	--	--	--	14,350,000	--	14,350,000
Cross-cutting Issues:						
Disaster Response	2,860,000	--	1,440,000	--	--	4,300,000
P.L. 480, Title II <sup>(2)</sup>	--	--	--	--	13,370,000	13,370,000
<b>Total <sup>(1)</sup></b>	<b>28,453,040</b>	<b>2,558,216</b>	<b>14,963,173</b>	<b>17,321,113</b>	<b>13,370,000</b>	<b>76,665,542</b>

(1) Includes all unattributed Africa Regional Program funds, plus funding levels for the following countries: Botswana, Burkina Faso, Cameroon, Cape Verde, Chad, Comoros, Cote d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Lesotho, Mauritania, Mauritius, Sao Tome, Seychelles, Sierra Leone, Swaziland and Togo.

(2) P.L. 480 Title II for Burkina Faso (\$10,823,000) and Cape Verde (\$2,547,000).

USAID/W AFR/SD Office Director: Jerome Wolgin



## REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICES

**FY 1996 Development Fund for Africa Request . . . . . \$13,431,363**  
**FY 1996 Development Assistance Fund Request . . . . . \$4,700,000**

There are two Regional Economic Development Services Offices (REDSOs), one located in Nairobi, Kenya for East and Southern Africa (REDSO/ESA) and one located at Abidjan, Cote d'Ivoire for West and Central Africa (REDSO/WCA).

### **EAST AND SOUTHERN AFRICA REGION (\$812,585).**

REDSO/ESA is primarily a service organization and plays a major role in the provision of U.S. economic and humanitarian assistance to 22 countries in the east and southern Africa region that receive USAID assistance. The United States has many interests in this strategic and troubled area. It supports the transition to democracy and the establishment of more peaceful, democratic, market-oriented governments in east and southern Africa. In addition, many of the countries in the region have vast mineral deposits, are potential markets for U.S. goods and services, and have provided important access to United States' forces in time of need. The United States also maintains historic and sentimental ties to the region.

REDSO/ESA's unique capabilities support U.S. interests by finding transnational development solutions to long-term problems in the region. REDSO/ESA is assisting the countries in the Greater Horn of Africa make the transition from economic crises to economic growth. This is being accomplished through a collaborative process with the governments in the region and involves food security, family planning, disaster prevention and conflict mitigation programs. REDSO/ESA has also worked to advance the transition to democracy in South Africa and has promoted peace, democracy, and economic development throughout southern Africa. (See individual east and southern Africa country narratives for country specific information.)

### **The Development Challenge.**

There are critical development challenges and opportunities in the region. Major challenges include promoting sustainable economic development, ensuring reasonable population growth, protecting human rights, stopping environmental decline, and preempting ethnic tensions. These challenges are complicated by serious natural and man-made disasters and constitute potential threats to peace, stability, and the well-being of all people. REDSO/ESA assists the twenty-two countries in east and southern Africa by providing a central pool of experienced USAID officers to be available on call to advise and assist USAID programs in the region. In addition to its service role, REDSO/ESA is in a unique position to identify regional issues such as those affecting the Greater Horn and southern Africa and to coordinate action to address them. For example, REDSO/ESA played a key role in the successful U.S. effort to minimize the loss of life resulting from drought conditions in East Africa in 1994.

### **Strategic Objectives (SOs).**

REDSO/ESA, because of its unique functional role in the east and southern Africa region, does not have a typical strategic plan. A program strategy, however, will be developed by April 1995 to conform to USAID strategic planning guidance. In FY 1996, REDSO/ESA will continue to carry out its traditional regional service role, as well as focused catalytic efforts on a regional basis within the sustainable development themes set forth in Agency-wide strategies. The REDSO/ESA budget is justified in terms of the basic four sustainable development themes of Encouraging Broad-Based Economic Growth (\$70,703), Stabilizing Population Growth (\$687,940), Protecting the Environment (\$20,000) and Building Democracy (\$33,942). It is anticipated that the soon to be finalized REDSO/East and Southern

Africa Regional Strategy will identify strategic objectives within the Agency's four sustainable development themes that will form the core of such REDSO/ESA initiatives in the coming years.

Activities. REDSO/ESA carries out its bilateral mission support functions through the services of an exceptional cadre of skilled and experienced personnel. REDSO/ESA has also begun to sponsor a number of uniquely integrated region-specific studies, workshops, and networking activities. This positive and extremely utilitarian evolution in REDSO/ESA's regional role largely has been funded through a variety of central USAID projects. REDSO/ESA will also have some regional coordination and field implementation responsibilities for the Greater Horn of Africa Initiative. (See separate narrative on this initiative).

REDSO/ESA recently launched a series of innovative initiatives that "look over the horizon" and anticipate emerging issues and opportunities in the east and southern Africa region. Examples of this expanding REDSO/ESA strategy include: the East Africa Environmental Collaboration Project which sets regional agendas on protection of transnational water resources, ecosystems and animal migrations; the East Africa Regional Networks for Health and Human Resources Project which centers on health problems such as the re-emergence of malaria, AIDS orphans, and health financing; the Regional African Trade for Development Project which strengthens capacity for market reform and innovation; the All-Africa Businesswomen's Advisory Group Project which develops national advisory groups capable of dialogue with host governments; and the Regional Coastal Resources Management Project which integrates coastal resources planning and management.

Other major REDSO/ESA responsibilities include:

- providing food and other emergency assistance to the victims of civil war in southern Sudan;
- managing a famine early warning system for Kenya, Tanzania, Uganda, Rwanda, Burundi, Sudan and Somalia;
- managing an Africa-wide family planning project;
- monitoring regional research grants in agriculture, forestry, and natural resources management;
- monitoring the health and family planning activities of more than a dozen USAID centrally funded cooperating agencies; and
- serving as the controller for the USAID programs in Eritrea, Sudan, Somalia, and Djibouti, and handling accounting and financial reporting for seven other missions: Ethiopia, Burundi, Tanzania, Rwanda, Uganda, Madagascar and Zambia, as well as for REDSO/ESA and the Regional Inspector General.

Feasibility and Cost-effectiveness. As noted above, REDSO/ESA's primary strategic directive has been to function as a service organization which provides technical and programmatic assistance to USAID missions throughout east and southern Africa, and to oversee select regional activities where there is no in-country USAID presence. Therefore, REDSO/ESA's direct program and project management responsibilities have been limited. Specialized activities launched by REDSO/ESA have centered on regional issues. Investments in these programs are having an impact on target populations.

Indicators. Indicators of progress will be formulated as an integral part of the REDSO/ESA strategic plan.

Progress in 1993-1994. Over the past year, REDSO/ESA personnel played a crucial role in all of USAID's major program and project designs in the east and southern Africa region, including: the development of the new initiative for southern Africa; the design of the new Eritrea program, the

design of major education and health programs in Ethiopia, a new health program in Zambia, a new country program strategic plan for the Mozambique program, and all sectors of the new USAID program in South Africa. As noted previously, it also energized and coordinated the successful U.S. response to drought conditions in East Africa in 1994, thus minimizing human suffering, the loss of human life, and the overall impact of drought on fragile east African economies.

REDSO/ESA has been active on many other fronts: in supporting the development of democracy and multi-party political systems in Eritrea, Ethiopia, Kenya, Namibia, and Tanzania; in implementing the peace process in Mozambique; in promoting Women in Development activities in Kenya, Uganda, Tanzania and Burundi; in designing a recovery program for Somalia; in responding to the emergency situation in Rwanda, Burundi (and neighboring Zaire); and in designing the President's Greater Horn of Africa Initiative.

Donor Coordination. Given REDSO/ESA's unique function in the east and southern Africa region, donor coordination has traditionally been a responsibility of the bilateral USAID missions that utilize REDSO/ESA's support services. Nonetheless, recent REDSO/ESA initiatives in environmental protection and population and health activities, as well as in the Greater Horn of Africa Initiative, are increasingly coordinated with the donor community in the region.

Constraints. Experience has indicated that it is difficult to provide substantive oversight, supervision and quick response that is required for timely and successful implementation of a development project if there is no resident USAID management in-country. It is anticipated that the REDSO/ESA regional strategy, which will be completed in early 1995, will provide REDSO/ESA with an improved focus for having long-term and catalytic impact on regional programs.

#### **WEST AND CENTRAL AFRICA REGION (\$17,318,778).**

West and Central Africa comprises a population of over 260 million. The countries of the region, granted independence largely in the 1960s, inherited colonial borders established with little regard for ethnicity or cultural heritage. The U.S. interest in providing development assistance to the WCA region is tied to humanitarian assistance objectives in the short term and promotion of democratic governance in the long run. Several countries in WCA have governments whose policies are changing and whose commitment to democratic participation is growing. In economic terms, the United States has important investments in the mining, energy, and telecommunications sectors. Finally, WCA is a critical southern frontier with the Islamic world in North Africa. This interface requires special efforts to preserve political, economic, and social stability in the region. USAID currently provides direct bilateral assistance to 13 countries in WCA. The Regional Economic Development Services Office for West and Central Africa (REDSO/WCA) is available to support all countries in WCA that receive USAID assistance. Although most of REDSO's support goes to smaller posts, in this time of cutbacks, even the larger ones are increasingly relying on REDSO's expertise.

#### **The Development Challenge.**

As the economic and political situation has evolved since independence of the former colonies, countries in WCA have generally shared the experience of poor internal and sub-regional economic growth. There are many reasons for this generally poor economic growth including civil disturbances, generally poor education and inappropriate health practices, ineffective governments and immature private sector institutions, weak program planning and management, and a shortage of trained professional and technical personnel. As a result of these factors, plus a fragile ecological balance that has exposed many inhabitants of the region to periodic droughts, crop failures and food shortages, the region has consistently underperformed in comparison with other developing regions of the world.

REDSO/WCA provides assistance to bilateral USAID posts in WCA in program and project design and implementation. In addition, REDSO/WCA helps establish accountability for the use of U.S. resources

through the services of its financial management, legal and contracting staff. REDSO/WCA staff currently provide the following services:

- Program management and technical services to client posts in accordance with client needs;
- Helping client posts produce high quality and timely strategies, programs, and projects;
- Services in financial management, budgets, and accounting;
- A portfolio of regional projects in the areas of the environment, health and population, education, and democracy and governance; and
- A repository of information and analysis concerning the WCA region, especially for institutions, systems, and networks which cut across national boundaries.

#### **Strategic Objectives (SOs).**

In FY 1996, REDSO/WCA will continue to provide assistance to bilateral USAID posts in WCA and to assume required managerial responsibilities in closing posts.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$5,976,103 of which \$4,076,103 is DFA and \$1,700,000 is DAF).**

REDSO/WCA's responsibilities are evolving to take account of the growing recognition that many of the most serious development problems in the region require regional solutions. With the design of the new Family Health and Acquired Immune Deficiency Syndrome (AIDS) -- West and Central Africa project, REDSO/WCA has begun to develop a regional project portfolio that will advance the Agency's sustainable development objectives. REDSO/WCA will place priority on improving maternal and child health, and reducing the spread of Human Immunodeficiency Virus/AIDS and other sexually transmitted diseases.

#### **STABILIZING POPULATION GROWTH (\$11,338,195 of which \$8,538,195 is DFA and \$2,800,000 is DAF).**

In developing its FY 1996 strategy in the health and population sector, REDSO is applying much of its experience of the past few years. This includes lessons concerning the value of community participation in managing primary health care programs (Burkina Faso), the value of using diverse service providers for family planning and AIDS control (Cote d'Ivoire and Cape Verde), how to strengthen public sector health systems (Cameroon and Togo), and how to support cost-recovery programs (Senegal, Burkina Faso, Cameroon). REDSO also is applying knowledge of regional commonalities, cultural similarities and donor coordination to the new project.

REDSO/WCA will place priority on increasing the demand for and supply of family planning services through effective information, education and communication, contraceptive social marketing, community-based distribution of contraceptives, and the improvement of quality of care provided by health workers. The long-term objective of these activities is to help slow population growth in certain countries in the WCA region.

#### **BUILDING DEMOCRACY (\$4,480).**

In addition, REDSO/WCA will design democracy and governance activities to provide support to bilateral mission portfolios.

#### **Donor Coordination.**

Donor coordination is the responsibility of the bilateral missions which REDSO/WCA assists. As REDSO/WCA becomes more involved in designing and managing its own portfolio of projects, it will become more closely and directly involved with other donors in the region.

**EAST AND SOUTHERN AFRICA REGION  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
Dev. Fund for Africa	70,703	687,940	20,000	33,942	812,585
Dev. Assistance Fund	--	--	--	--	--
<b>Total</b>	<b>70,703</b>	<b>687,940</b>	<b>20,000</b>	<b>33,942</b>	<b>812,585</b>

USAID REDSO/ESA Director: Fred C. Fischer

**WEST AND CENTRAL AFRICA REGION  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
Dev. Fund for Africa	4,076,103	8,538,195	--	4,480	12,618,778
Dev. Assistance Fund	1,900,000	2,800,000	--	--	4,700,000
<b>Total</b>	<b>5,976,103</b>	<b>11,338,195</b>	<b>--</b>	<b>4,480</b>	<b>17,318,778</b>

USAID REDSO/WCA Director: Willard J. Pearson

## THE GREATER HORN OF AFRICA INITIATIVE

FY 1996 Development Fund for Africa Request: . . . . . \$15,000,000  
FY 1996 P.L. 480 Title II Request . . . . . \$20,471,000

The United States is facing one of its significant foreign policy, humanitarian and economic development challenges in the Greater Horn of Africa. This high risk region comprises 10 countries: Rwanda, Burundi, Somalia, Ethiopia, Eritrea, Sudan, Djibouti, Uganda, Kenya and Tanzania. Over the past 25 years, the frequent incidents of civil conflict, drought and economic mis-management in this region have resulted in a series of failed states fostering regional instability and overcoming African and donor capacity to move the region forward on an upward path of economic growth and development. A new generation of African leaders in the region provides a window of opportunity to support African solutions away from crisis and towards sustainable development. The United States, acting as a catalyst, is proposing an international recommitment and a regional initiative to break the cycle of poverty, despair and continual crisis.

### The Development Challenge.

The consequence of chaos in this region has been a prolonged humanitarian crisis that costs the United States and the donor community dearly in terms of international emergency assistance from abroad and caused grinding poverty within. It has sapped our collective strength as we succumbed to respond to yet another wrenching crisis. While the United States has fewer significant strategic interests at stake in the region than was the case during the Cold War era, we are confronted with recurring humanitarian crises that cost donors over \$4 billion in emergency aid alone between 1985 and 1992, while over 2 million people died. The United States alone spent \$1.6 billion, including military expenditure, for Operation Restore Hope in Somalia -- a sum equal to two years of total U.S. development aid to all of sub-Saharan Africa.

Political instability is very close to the surface in the region and has caused constant new waves of refugees that are themselves a source of destabilization. There are approximately 11 million refugees and displaced persons in this region -- larger than almost anywhere the world. The island of stability, Tanzania, has had a new wave of refugees from its neighbors every year for over three decades. There is a limit to the region's capacity to absorb refugees and it is imperative to begin returning them to productive lives at home.

Traditional economic assistance strategies have been inadequate to combat and overcome the problems facing this region. Too often, e.g., in Sudan, humanitarian assistance is used for long-term complex emergencies -- long after the immediate crisis abates. Food aid, while important and necessary in this region, has resulted in dependencies that need to be broken with long-term African solutions. Long-term development assistance efforts have been swamped by the political and economic uncertainty that characterizes much of the region. The United States spends currently about twice as much on emergencies as development in this region -- and is not alone among donors in this ratio.

In response to this set of urgent problems in the Greater Horn, the Administrator of USAID led a delegation to the region to assess the situation and to develop recommendations to deal with the structural food deficit problems. The delegation, which included representatives from the Congress and the private philanthropic community, visited the region between May 26 and June 1, 1994, and also consulted with other donors in Europe.

The Administrator's report to the President recommended that, while the United States should continue to play a leading role in meeting the short-term relief needs of the at-risk population in the Greater Horn, the time had clearly come: (a) to increase efforts to address the broader, deep-seated causes of disaster; (b) to meet relief, recovery and development needs in a more coherent way; and (c) to

galvanize the international community to help Africans tackle their problems in a better integrated fashion. Consequently, President Clinton charged USAID with leading the U.S. Government in the development of a framework for a Greater Horn of Africa Initiative (GHAI), a strategy capable of gaining the widest possible support from other donors and from the Africans.

#### **The Greater Horn of Africa Initiative.**

The United States has taken a leadership role to try and break the cycle of despair confronting the world in the Greater Horn of Africa and is calling for an "international recommitment" to the 186 million people living in the region -- almost half of them living close to the edge of hunger. USAID believes that different approaches, rather than large amounts of new money, are needed to move from crises to development. USAID is proposing that the recommitment take the form of a common goal of enhanced food security; that it can be pursued through an integrated framework and process of Africans and donors working more collaboratively and transparently to develop a long-term regional perspective combining emergency and economic assistance to eliminate the root causes of food insecurity.

As was the case for the Sahelian region of Africa over 20 years ago, this challenge requires the development of a regional identity, regional perspective and regional integration framework combining emergency and development assistance efforts in a synergistic manner to promote sustainable development. The United States earlier provided leadership for a regional approach to prevent famine and foster development for the Sahelian countries that, in part, has assisted in transition from emergency and recovery to development. USAID intends to use a similar approach now for the Greater Horn. It will be more challenging in the Greater Horn of Africa, and a higher risk, due to a more diverse set of economic, social, ethnic, linguistic, climate and geographic factors.

The goal of the initiative is that the people of the Greater Horn of Africa shall achieve food security. To reach this goal on a sustained basis, the Initiative aims to institutionalize a process of joint problem solving in the attack on the root causes of food insecurity. There are four broad objectives as follows:

- Different approaches to development of regional and national food security strategies;
- New capacity for crisis prevention, response and conflict resolution;
- Integrated donor collaboration to promote economic growth and reduce population rates; and
- New strategies to ensure the transition from crises, through recovery, to support sustainable growth.

#### **Proposed Phases for the Initiative.**

The United States is currently consulting with African governments, donors and nongovernmental organizations on the concept for the Initiative and how it may be implemented. The next steps in the "facilitative actions" phase would mostly involve a series of activities, not projects, to support the broad objectives of the initiative. This involves a more process-oriented approach to test a recommitment and a regional perspective to new ways of thinking and acting to attack the root causes of food insecurity. The activities under "Facilitative Actions" would include a joint African donor launching of the Initiative; strengthening regional private and public institutions to find regional solutions to regional problems; establishing a conflict early warning and crisis response capacity; defining operating principles linking relief and development to disaster assistance; developing an integrated African donor framework for assessing food security activities; and analyzing new economic growth options. This should take approximately one year and cost less than \$15 million for the U.S. share in 1995.

The 1996 start-up and longer-term root cause phases would commence only after the United States was convinced that we had been successful in instilling new ways of thinking and acting regionally to enhance food security.

#### **Strategic Objectives.**

The initiative has tentatively set out four program strategic objectives under the broad categories for sustainable development as follows:

#### **BUILDING DEMOCRACY (\$1,050,000).**

##### **SO 1. New regional capacity for crisis prevention and civil society (\$1,050,000).**

Civil strife, more than drought, is now the driving force of food insecurity in the Greater Horn region. Recurring social and political instability in the Greater Horn explains in part, and is in part explained by, the absence of strong national civil society institutions. Crisis prevention and conflict resolution are essential to building democracy in the region. There is a requirement to build a new early warning capacity beyond food and weather to deal with the social, ethnic and religious causes of crises. This will involve conflict early warning monitoring and analytic capacity at the local, national and regional levels and the development of a crisis prevention capacity.

**Activities.** (1) Develop a conflict early warning system, including a prevention capacity with the Africans, the United Nations, other donors and nongovernmental organizations to include political, social, ethnic factors, a mechanism and process for joint action by decision makers. Linking existing institutions on electronic networks and strengthening other networks in the region will provide ready access to early warning information and help strengthen broad civil society in assuring food security. (2) Expand USAID's Famine Early Warning System (FEWS), which currently covers four of the countries in the region, to cover all ten, where feasible, and to rationalize it with other systems such as the Intergovernmental Authority on Drought and Development (IGADD) and the Food and Agriculture Organization's Global Information and Warning System.

**Indicators.** (1) The application of FEWS from four to ten countries. (2) The establishment of a conflict early warning capacity in the region and within the donor community to monitor and analyze potentially destabilizing social and political conflicts at a regional, national and local level. (3) The effective linking of institutions related to food security, both inside and outside the region. (4) The development of an expanded and effective USAID and African conflict prevention response capacity by civic groups at local, national and regional levels.

**Feasibility and Cost-effectiveness.** African capacity building, with donor assistance in conflict early warning prevention and disaster preparedness and response, is the most effective means to reduce the demand for humanitarian assistance.

**Donor Coordination.** USAID is continuing discussions with other donors, the United Nations Development Program (UNDP) and other UN organizations, the World Bank and with the private voluntary organization (PVO) community, as well as with U.S. agencies to establish the capacity for conflict early warning systems and crisis prevention and response for natural and man-made crises.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$7,950,000)**

##### **SO 2. Implement strategies and procedures to ensure the transition from crisis to broad-based sustainable growth (\$4,000,000).**

The transition from extensive relief to recovery and development is not occurring rapidly within the region. At times, relief and development activities may be working at cross purposes. Recent



estimates in Eritrea indicate that four out of every five inhabitants are on or have received relief food aid in the last year. This is symptomatic of the problems in the Greater Horn region, in which relief expenditures are larger and often at the expense of development activities. Relief activities need to be administered in a way to create sustainable private and public assets that contribute to economic recovery and growth. This is a large challenge to speed the transition from relief through recovery to development using emergency and development resources more effectively. Food aid can be an important tool in assisting the region to move from dependency to sustainable development and under the Initiative opportunities will be sought to use it more effectively for the dual purposes of meeting immediate needs and reducing the risk of food insecurity. Priority will be given to innovative approaches using the P.L. 480 Title II allocation to the initiative for this purpose in the region.

**Activities.** (1) Drawing on the wide attention which USAID and others have given to ways of bridging this "gap" between relief and development, USAID is supporting the drafting of principles and guidelines which will govern the work done in this transition phase by national and regional institutions. USAID also will support training programs, carried out by appropriate institutions in the region, for donor and African relief and development workers. (2) Under the initiative, USAID and other donors with African partners, will develop jointly a national strategy in one (e.g., Eritrea initially) or more countries to combine relief, recovery and development programs in a successful transition from relief aid to sustainable development. (3) USAID and other donors will work with African partners and support program proposals for demobilizing former combatants and for reintegrating these and displaced persons into the civilian labor force.

**Indicators.** Progress towards this objective will be verified by: (1) the existence of a transition operating principles, which have broad support of donors and host countries alike; (2) training programs which make the transitional principles widely available; (3) practical evidence that relief and development operations have become mutually supportive; and (4) evidence of the more effective reintegration of people disrupted by war and drought into peacetime economies.

**Feasibility and Cost-effectiveness.** The tighter focus of all sources of funding on the long-term goal of food security will help to eliminate situations where one source (e.g., the provision of food) undermines the effect of another (e.g., assistance to create open market economies). At a time when emergency funding through P.L. 480 Title II and through International Disaster Assistance to the Greater Horn is twice as great as development assistance to the region through the Development Fund for Africa, it is vital that various sources of funding be used in the most cost-effective manner.

**Donor Coordination.** No single donor can bear sole responsibility for assistance in any given crisis or development program. It is therefore essential to effective transitions that the same guidelines and principles be observed by all donors involved. USAID has now engaged the relevant other donors and United Nations bodies, the European Union and appropriate PVOs to define new operating principles which will guide donors and recipients along the continuum from relief to growth.

**SO 3. Realize greater regional collaboration in promoting sustainable economic growth (\$5,450,000, of which \$3,950,000 is for Economic Growth and \$1,500,000 is for Stabilizing Population Growth).**

A regional framework will be strengthened to complement national economic policies. Support will be given to sectors which contribute to broad-based economic growth based on comparative advantage. The importance of bringing population growth into balance with economic growth begins at the local and national levels, but needs to be buttressed and leveraged with regional collaboration to undertake the necessary reforms in the most effective context.

**Activities.** A regional program will be mounted to strengthen the capacity of national and regional organizations for applied economic policy analysis and investments in critical sectors to support sustainable growth. This may include policy analysis and planning and prioritizing investments in the agribusiness, small-scale credit and regional transport network and other support sectors, such as

storage facilities and communications. These regional activities will strengthen and improve the integration of markets and reduce food insecurity. This program will update and broaden the inventory of assets for emergency assistance in the region, completed by USAID in 1994. A second program will work to improve the capacity, especially of grass-roots PVOs, to provide technical assistance and training (including literacy training) to those applying for credit and attempting to assess new technology packages, taking into account market prices and opportunities. A third program, using the Resources for the Awareness of Population Impacts on Development (RAPID) program, will assist the development of appropriate regional and national policy agenda and regional approaches to reduce population growth rates to support sustainable development.

**Indicators.** Evidence of progress towards this objective will include: (1) work by institutions in the region, assisted by donors, to plan and prioritize investments which will lead to the closer integration of markets in the region; (2) action by PVOs to expand credit available to small entrepreneurs, households and other members of rural communities; and (3) policy changes which favor family planning, accompanied and supported by improved health and nutrition practices and by expanded access (particularly by girls and women) to basic education services.

**Feasibility and Cost-effectiveness.** A long-term food security strategy which neglects problems of access to food and utilization of food is only a partial strategy. Access to food is often a function of income. For this reason, many development economists accept levels of poverty as a proxy for degrees of hunger and malnutrition, and vice-versa. Attention, therefore, to income generation and to social services at the grass roots which support the work force is an essential part of the regional initiative, which seeks to reinforce local and national programs with cross national and regional collaboration.

**Donor Coordination.** The scale of the effort required to create broad-based economic growth in the Greater Horn, and the number of sectors involved, will require many years and a high degree of donor collaboration. USAID plans to fund in FY 1995 a portion of the costs of a meeting for members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) with public and private leaders in the Greater Horn region to review publicly development strategies in the changing region. In addition, a major topic of the consultations which USAID opened with partners in the initiative are the special measures and mechanisms which have been adopted to ensure the better integration of assistance programs in other areas of comparable need, such as the Sahel region of Africa with its Club du Sahel which operates under OECD auspices.

## **PROTECTING THE ENVIRONMENT (\$4,500,000).**

### **SO 4. Strengthen support for regional and national food security strategies (\$4,500,000).**

Food security has been defined in this Initiative to cover three essential aspects: the availability of food (trade and sustainable agriculture), access to food (affordability), and utilization (health and nutrition). The myriad of local, national and regional donor projects and programs to achieve food security will be comprehensively reviewed and systemically integrated in order to identify and rectify the important missing links in these programs. "The Food Security Strategy for the IGADD Region, 1990" will be a basis to prepare a more comprehensive regional food security strategy for the Greater Horn as a whole.

**Activities.** An analysis will be made by Africans and donor organizations on the multiple elements which are essential to sustained food security. Using this analysis, a joint portfolio review will be made of donor and host country programs with the objective of identifying duplication and important gaps. A parallel review will be made at the regional level, where complementarities and efficiencies of scale may be realized in support of food security. Following these reviews, USAID and other donors will seek funding at both the national and regional levels to assist countries address weaknesses in vital areas which contribute to sustainable agriculture and food security, agricultural research and

productivity, intra-regional trade, and food security monitoring and targeting (with help from the early warning systems established and discussed earlier).

**Indicators.** Indicators for measuring progress towards this objective include: (1) production of a food security model checklist and its adoption by partners in the initiative in each country and region; (2) conducting a series of joint portfolio reviews, at regional and country levels; and (3) agreement to seek additional funding of programs which supply vital missing elements in the strategies to achieve sustainable agriculture and food security.

**Feasibility and Cost-effectiveness.** Despite the bleak picture of current food insecurity in the Greater Horn, individual country analyses indicate that, given the right conditions, there is considerable scope for increases in self-reliance. Integrated food security portfolio reviews should eliminate potential duplication and allow cost-effective synergy among donor and host country programs. Regional trade could be a powerful contributing factor in stimulating production, if national comparative advantages are given an opportunity to operate freely. National agricultural research institutions, in close cooperation with International Agricultural Research Centers, could make a significant contribution in raising the level of on-farm technology and in maintaining seed banks for use across borders in times of emergency.

**Donor Coordination.** Regional strengthening of food security in the Greater Horn will require the combined attention of the donor community. The joint portfolio reviews, based on a common understanding of the elements required to achieve food security, is designed to achieve a common perspective on the steps which partners must take together at the regional and national levels. USAID has proposed to other donors and host governments that this process be followed.

**GREATER HORN OF AFRICA INITIATIVE  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Prevent & Resolve Crises.	--	--	--	1,050,000	--	1,050,000
2. Assure Transition Crises to Growth.	4,000,000	--	--	--	--	4,000,000
3. Promote Regional Collaboration for Economic Growth.	3,950,000	1,500,000	--	--	--	5,450,000
4. Strengthen Food Security Strategies.	--	--	4,500,000	--	--	4,500,000
Cross-cutting Issue: P.L. 480, Title II	--	--	--	--	20,471,000	20,471,000
<b>Total</b>	<b>7,950,000</b>	<b>1,500,000</b>	<b>4,500,000</b>	<b>1,050,000</b>	<b>20,471,000</b>	<b>35,471,000</b>

GHAI Working Group Director: Ted D. Morse

## INITIATIVE FOR SOUTHERN AFRICA

**FY 1996 Development Fund for Africa Request . . . . . \$30,170,000**

The southern Africa region is very important to the United States. It is strategically situated between the southern Atlantic Ocean and the Indian Ocean. The 11 countries included in the region (Angola, Namibia, Zambia, Zimbabwe, Malawi, Tanzania, Mozambique, Lesotho, Swaziland, Botswana and South Africa), have a combined land area well over half the size of the entire United States, including Alaska. The region is rich in strategic minerals, including petroleum, gold, diamonds, cobalt and copper. The region has a population of about 130 million and a gross domestic product of about \$142 billion. Exports from the region to the United States, about half of which consists of crude oil from Angola, are valued at \$4.4 billion. Imports from the United States are valued at \$3.1 billion, or the equivalent of 60,000 U.S. jobs. With the Republic of South Africa (RSA) as a potential engine of growth, the region will become an even more important trading partner for the United States. The coincidence of these interests with those of the southern Africans has provided the impetus for the new U.S. Initiative for Southern Africa (ISA).

The southern Africa region is undergoing a major transition. Long civil wars have ceased recently. Racial apartheid has ended. Authoritarian regimes have given way to fledgling democracies. Highly statist command economies are being transformed into open, free market economies in which resources are allocated increasingly through the "invisible hand" of the private sector. These dramatic developments offer a unique opportunity to advance U.S. interests by supporting and strengthening the newly established democracies, stimulating economic growth, reducing the need for costly humanitarian assistance.

### **The Development Challenge.**

Recent economic growth in the southern Africa region has been highly uneven, with annual gross domestic product (GDP) growth rates ranging from +9.3% in Botswana in 1991 to -10.6% in Malawi in 1994. Since South Africa accounts for roughly three quarters of the region's GDP, its revitalization is expected to be the largest single factor influencing economic growth in the region. With the exception of Angola, virtually all of the other nations of the region are being severely tested by structural adjustment programs that are designed to open their markets, improve their international competitiveness and reverse the declines in their economic growth rates. However, the World Bank recently reached the conclusion that the reforms are incomplete. Additional efforts will be required to accelerate the region's aggregate economic growth. The new reforms that will be required include reduction and rationalization of central government expenditures in order to lower fiscal deficits to sustainable levels, deregulation of the private sector, improving investment policies, accelerating the expansion and diversification of exports, and improving the efficiency of the infrastructural base, especially through policy reform in the telecommunications and transportation sectors. As the southeast Asia experience in the second half of the twentieth century has shown, rapid growth in developing areas provides markets for U.S. products and jobs for Americans as well as the reduction, if not outright elimination, of the need for official development assistance from the United States.

As the countries in the region open politically and economically, they are experiencing greater pressure to meet the needs of rapidly growing populations that are beginning to participate more fully in the economic and political activities affecting their lives. HIV/AIDS is rapidly becoming endemic and must be addressed. Droughts in 1992 and again in 1994 have inhibited efforts to increase agricultural productivity, and have required large infusions of food aid. Environmental degradation has increased, and the maintenance of biodiversity is threatened by the encroachment of human populations on wildlife habitats. Many of the problems are regional by nature and must be dealt with in a coordinated fashion. ISA provides resources that will complement bilateral programs in the region by helping to design and implement programs that address these regional problems from a regional perspective, where appropriate.

Hope has been generated by the end of more than 20 years of civil war in Mozambique and Angola, the demise of apartheid in South Africa, and the recent emergence of democratic governments in Zambia, Namibia, Malawi and Mozambique. Nonetheless, major efforts will be required to continue the democratic transition in the region's fledgling democracies and to promote continued peaceful resolution of subregional conflicts.

### **Strategic Objectives (SOs).**

The four strategic objectives outlined below represent an interim framework for the Initiative for Southern Africa through FY 1996. A longer-term strategy will be developed by the new Regional Center for Southern Africa that will be established in Gaborone, Botswana in early 1995.

### **BUILDING DEMOCRACY (\$2,500,000).**

**SO 1. Enhance the skills, knowledge and capacity of individuals and organizations working to strengthen democratic values and processes in the region (\$2,500,000).**

Democracy has made significant gains in southern Africa over the past few years, as authoritarian regimes have given way to democratically elected governments, and nations at war are making the transition to peace under new democratic arrangements. USAID assistance has been instrumental in a number of these transitions. However, the nascent democracies have shallow roots, and southern Africans fear that they may topple in the face of ethnic tensions and economic pressures. There is an urgent need to reinforce nongovernmental organizations and civil institutions that are aggressively promoting and defending democratic values and processes, and are ensuring that all segments of society are able to participate in decisions that affect their lives.

**Activities.** Through the creation of a democracy fund in 1995, USAID seeks to support the initiatives of indigenous civil and governmental organizations which are working to ensure (1) that citizens understand how democracies function and their rights and responsibilities under their democratic systems, (2) that women's political participation increases, and (3) that legislators have the knowledge and skills needed to effectively manage the legislative process, including an ability to build coalitions and resolve political disputes. The democracy fund will provide approximately \$10 million in grants over a five-year period to organizations such as women's legal rights, media, and educational institutions undertaking regional training or other capacity-building, networking, information-sharing, research and/or collaboration on joint approaches for resolving regional problems in the three subject areas outlined above. Activities must involve at least two of the countries in the region.

**Related Activities.** Approaches that encourage broad participation of concerned individuals and groups will be utilized in all components of the Initiative for Southern Africa, which is mandated to be African-led and stakeholder-driven.

**Indicators.** Although not yet formalized, indicators may include: (1) increased number of individuals and organizations with the capacity to provide accurate information to citizens on their rights and responsibilities in a democracy, including how they may engage the government on issues of concern and hold elected officials accountable, (2) increased number of women's advocacy organizations with capacity to represent women's issues in political fora, (3) more effective and efficient legislative processes, and (4) greater citizen understanding of democratic values and processes.

**Feasibility and Cost-effectiveness.** Many groups throughout southern Africa have expressed the need for assistance in building their own capacities, and a desire to share information and learn from the experiences of others within the region. A number of successful regional workshops and exchanges have been undertaken by nongovernmental organizations (NGOs), proving the feasibility of these approaches. The estimated demand for training and technical assistance in some subject areas by

several countries in the region indicates that regionally administered programs would be more cost effective and efficient than organizing them on a country-by-country basis.

Progress in 1993-1994. The democracy fund will begin operation in FY 1995.

Donor Coordination. Aid from other donors flows through a number of unconnected channels, e.g., official donors, both bilateral and multilateral, parliamentary groups, international organizations, quasi-NGOs, independent NGOs, churches and academic institutions. Efforts to coordinate donor assistance at the national level have met with varying degrees of success. ISA envisions building upon networks previously established through the Southern Africa Regional Program (SARP) and convening a conference under the auspices of the Development Assistance Committee with other donors, NGOs, and southern African governments to share information on programs and to coordinate activities.

Constraints. The success of democracy activities will depend on the willingness of nations in the region to continue their open, tolerant political environments.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$19,475,000)**

### **SO 2. Increased indigenous business development and ownership (\$2,400,000).**

The small and medium-sized enterprise (SME) sector, comprised primarily of indigenously owned enterprises, will play a major role in creating employment opportunities and improving incomes in the region. Although recent political and economic changes have led to an increase in the number and scope of indigenous entrepreneurial activities, the SME sector historically has lacked access to financial and technical services or was underserved, and has thus experienced other problems such as insufficient working capital, bad debt or cash flow problems. USAID believes that these constraints to SME development and ownership must be addressed for indigenous SMEs to meet the growing need in the region for jobs, and to assure that people at the lower and middle-income levels secure a stake in and share the benefits of economic growth.

Activities. To provide increased jobs and income earning opportunities to the poor in southern Africa, USAID is financing the establishment of the Southern Africa Enterprise Development Fund (SAEDF). SAEDF will provide financial services such as debt, equity, guarantee financing and related technical and managerial services to SMEs. The fund will operate as an independent non-profit corporation but is expected to focus investments to ensure financial sustainability in order to continue to service the financial needs of SMEs. The SAEDF will be complemented by a technical assistance project to improve the institutional capability of intermediary financial institutions in the region to service the technical, managerial and investment needs of the lower end of the SME sector. USAID will undertake analysis in support of this strategic objective and engage in policy dialogue with regional institutions, the private sector and governments.

Related Activities. A positive correlation exists between the growth of SMEs and the existence and accessibility of reliable and efficient infrastructure. Thus, the improvement of the regional transportation and telecommunications network will assist the development and expansion of SMEs as well as provide conditions to enable these firms to become competitive in the national, regional and international markets.

Indicators. The primary indicator for measuring impact is the number of small and medium-sized indigenously owned businesses (disaggregated by sex of business owners).

Feasibility and Cost-effectiveness. Experience in the United States and elsewhere has shown that small and medium-sized enterprises contribute significantly to the job and income growth. These firms in the southern African region have the same potential. Capital for start-up and expansion and related managerial and technical support have been identified as the primary constraint. USAID's experience

with enterprise funds in eastern Europe have demonstrated that capital can be made accessible to small and medium enterprises on a sustainable basis. Analysis conducted for the Southern Africa Enterprise Fund indicates that even with a moderate return on investment, the Fund can become a financially sustainable mechanism for reaching SMEs. Additionally, as the Fund will demonstrate the growth potential of SMEs in the region, the Fund will be able to leverage its resources to stimulate greater mobilization of funds for investment in this growth potential sector.

Progress in 1993-1994. SAEDF will become operational in 1995.

Donor Coordination. Since SAEDF is not expected to meet the total annual investment needs of the SME sector annually (estimated between \$800 million and \$1 billion), USAID intends to leverage its funds by encouraging other donors to participate in the fund directly or on a parallel or co-financing basis in SAEDF projects. The Government of Japan has already agreed to contribute to the fund. Other major donors to the southern Africa region include the European Union and the Nordic Countries.

Constraints. The lack of risk capital is the major constraint shared by indigenous SMEs in the region. The relatively high cost to financial institutions of working with SMEs that in many cases do not keep good financial records and may not wish to disclose their earnings to financial institutions.

**SO 4. Increased efficiency, reliability, and competitiveness of regional transport and telecommunication infrastructure (\$7,970,000).**

Sustainable economic growth, fueled by increased trade and investment and regional cooperation, requires efficient transport and telecommunications infrastructure. Although the physical capacity of transport and telecommunications is now in place, government monopolies through state-owned enterprises, restrictive policies, and intrusive economic regulations have lowered the efficiency of these sectors, thus discouraging investment and increasing cost, especially to small farm holders and small business operators.

Activities. Activities seek to restructure regional transport and telecommunications through policy and technical improvements which increase efficiency and encourage investment. Activities in the transport sector build upon a decade of USAID investment in the overall physical capacity of the railway corridors. Transport activities support the formulation of regional transport sector policy agenda for the Southern African Transport and Communications Commission (SATCC); analysis and promotion of harmonized transport policies to encourage competition and improve efficiency; the enhancement of SATCC's institutional capacity to conduct policy research, formulation and promotion, and the establishment of a regional transport data base. Additionally, USAID will finance the installation of a rolling stock information system which will improve the operational efficiency of rail car deployment and utilization. Efficiency gains are expected in the railway sector as well as in overall intermodal transportation. In the telecommunications area, USAID is financing activities to improve SATCC's capacity to assist southern African countries to formulate policies in support of restructuring and privatization to develop linkages between the United States and southern African telecommunications industries through an investment information clearinghouse. Both the transport and telecommunications programs will be supported by analysis and will benefit from ongoing policy dialogue with regional institutions, government and private sector.

Related Activities. A clear link exists between the development of SMEs and small holder production and the availability of reliable and efficient transportation and telecommunications infrastructure. Thus, activities in the transportation and telecommunications areas will have an impact on the achievement of strategic objectives two and three. Also related this strategic objective are the transport restructuring activities being implemented in Malawi and the telecommunications restructuring program in Tanzania with ISA funding. Activities are anticipated in other southern African countries with funding from ISA. The success of these activities will be influenced by the effectiveness of the regional program's efforts in improving the overall policy environment for improved infrastructure.



**Indicators.** Indicators to measure achievement of this objective are: (1) reduced surface transport costs on selected farm inputs and export crops; (2) improved regional railway record on meeting projected traffic demand; (3) annual net tons carried per kilometer; (4) return on invested capital; (5) increased price competitiveness with international rates (telecommunications measure); (6) increased local, regional, and international telephone call completion rates in the region (relative to international standards); and (7) efficiency gains in telecommunications dependent businesses.

**Feasibility and Cost-effectiveness.** In the transport sector, feasibility and cost-effectiveness have been assessed by the expected reasonable economic return on investment, the reduced cost of moving traffic, and the distributional aspects of benefits in terms of impact groups, such as small farmers and entrepreneurs who will face reduced costs for fertilizer and other inputs. Restructuring and privatization of the telecommunications sector is expected to lower communications cost related to the operation of business and attract greater investment in the region through a more reliable and competitive telecommunications network. By working through SATCC to strengthen a policy analysis and policy change advocacy center, USAID is ensuring regional support and African ownership of change in the telecommunication, as well as transport, sectors, which is the most effective way to overcome policy constraints. The potential savings from unified, simplified policies are substantial even when the indirect benefits to the economies of the countries involved are not considered.

**Progress in 1993-1994.** In the rail sector, institutional reforms were initiated to improve utilization of railway rolling stock and to enhance marketing. However, efficiency improvements have not yet taken hold and additional improvements are needed in locomotive maintenance and cross-border traffic connections. Flexible tariff arrangements and contract rates are being introduced to meet projected traffic demand and annual net ton per kilometer targets so that rail transportation becomes more competitive and demand responsive with road transport. The preparation of regional transport protocols began in September 1994. No progress can be reported for telecommunications since activities just began at the end of FY 1994.

**Donor Coordination.** The United States is the major donor in the transportation sector in southern Africa. In carrying out its assistance in the transport and telecommunications sector, USAID is working with SATCC which facilitates coordination among donors. USAID has participated in joint financed programs with the World Bank for structuring and privatization activities in Malawi and Mozambique. USAID also coordinates its policy and regulatory reform program with the Canadian International Development Agency which is implementing national capacity building programs to enable the rail sector to carry out needed reforms. The French aid agencies have focused assistance on institutional reform of the rail sector, while the principal German aid agency, GTZ, has provided training modules for national level road and rail operators. USAID also coordinates its design for transport projects with the Overseas Development Agency of the United Kingdom. The World Bank is the primary donor in the telecommunications field, financing restructuring activities in Tanzania and Zambia and a study of telecommunications in Zimbabwe. USAID coordinates closely with the International Finance Corporation which has goals congruent with those of USAID. The Swedish International Development Agency has been active in providing assistance in Zimbabwe, Angola, Mozambique, and Tanzania. The Japanese and French have some activities in the region but have not coordinated with the United States.

**Constraints.** The primary constraints addressed are the intrusive economic regulations and restrictive policies of the national governments in the region and the monopolistic control of the state-run railways and telecommunications agencies. These constraints have led to inefficiently-run transport and telecommunications systems and the discouragement of private investment in these sectors. The program activities address both of these constraints.

## **PROTECTING THE ENVIRONMENT (\$8,195,000).**

**SO 3. Establish key regional conditions for sustainable increases of agricultural and natural resources productivity by smallholders (\$17,300,000, of which \$8,195,000 is for Protecting the Environment, and \$9,105,000 is for Promoting Economic Growth).**

Despite the diversity and richness of its natural resource base -- including large reserves of such minerals as diamonds, uranium, and oil, as well as considerable renewable resources of land, wildlife, and fisheries, and the 15% of the land base set aside as conservation areas -- southern Africa faces growing threats of food insecurity and environmental degradation. Less than 8% of the land is arable, and the remaining areas of rangeland and forests are being degraded by overstocking, overgrazing and overharvesting. More than two-thirds of the population depend on agriculture for employment and income, yet productivity and production per capita have declined in virtually all countries of the region during the period from 1979-92 in the face of a population growth rate that exceeds the growth rate for agricultural production, and recurring drought.

Activities. Activities begun under the Southern Africa Regional Program (SARP) support efforts to increase food security in drought-prone areas, and to reduce threats to the environment. In food security, the emphasis is on dissemination and utilization of technologies developed to assist small farmers raising basic food crops. In pursuit of this objective, USAID has financed activities to strengthen the capacity of regional and national agricultural research institutions, through development of regional research plans, human resources development, and improved coordination mechanisms. To protect the environment and increase rural incomes, USAID has supported community-based natural resources management initiatives which demonstrate that sustainable utilization of wildlife and indigenous plant species can be a viable alternative to traditional agriculture on marginal lands. Future activities under the ISA will support efforts to harmonize trade policies for agricultural and wildlife products in the region, improve planning for the utilization of transnational resources such as water and wildlife, and enhance the sustainability of regional agricultural research activities.

Indicators. Illustrative indicators include: (1) improved coordination of agricultural research programs on a regional basis as evidenced by prioritized plans and investments, (2) improved dissemination of technologies developed in regional programs to intended users, (3) an improved data base on the region's natural resource endowment upon which to base regional planning, and (4) appropriate institutional models developed for sustainable community-based management of natural resources.

Feasibility and Cost-effectiveness. Experience under the regional agricultural research programs for sorghum and millet, and roots and tubers has demonstrated that investments in research have achieved a high rate of economic return. The benefits of past investment in the sector will be magnified by the emphasis under the ongoing phase II programs to disseminate already proven successful technologies. Coordinating agricultural research and pilot community-based natural resources management programs on a regional basis offers a cost-effective way to bring knowledge to bear on problems that constrain increased productivity in the region.

Progress in 1993-1994. Despite the overall long-term trend of declining agricultural production per capita in the region, in 1993-94 there were a number of positive signs of progress in the sector. Governments accelerated efforts to disseminate improved varieties of sorghum and millet, with the result that over 40 of the approximately 300 varieties and hybrids developed with USAID support had been released and adopted, with 50% of the small farmers in Namibia utilizing a short-season hybrid millet that reduces risk in a region plagued by drought. Pilot programs demonstrated the economic value of sustainably managing wild animals and plants, leading an increasing number of communities to protect these income-generating resources. The capacity of both national and regional agricultural research institutions was significantly strengthened, leading to improved management of research programs. In addition, successful research in Zimbabwe on the tick-borne heartwater disease that

afflicts livestock now promises to benefit the United States, where livestock have no resistance and are threatened by the presence of the disease in some Caribbean nations.

Donor Coordination. Numerous bilateral and multilateral donors, as well as private and public foundations and private voluntary agencies have provided assistance to the agricultural and natural resources sector over the past ten years. USAID has been the largest bilateral donor to the sector and has played a leadership role in regional programs for food security, agricultural research, community-based natural resources management, human resources development, and institutional capacity building. Through its support to regional agricultural research institutions, and national and regional environmental planning activities, USAID also has contributed significantly to donor collaboration and improving the accountability and development impact of research investments.

Constraints. Recurring drought, insufficient knowledge about the resource base, lack of research on natural resource management issues from which to draw appropriate solutions, lack of linkages between research and extension, and weak coordination mechanisms among the countries of the region all complicate efforts to increase the productivity of agriculture and the natural resource base.

**INITIATIVE FOR SOUTHERN AFRICA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Enhance the skills, knowledge, and capacity of individuals and groups working to strengthen democratic values and processes in the region.	--	--	--	2,500,000	2,500,000
2. Increased indigenous business development and ownership.	2,400,000	--	--	--	2,400,000
3. Establish key regional conditions for sustainable increases of agricultural and natural resources productivity by smallholders.	9,105,000	--	8,195,000	--	17,300,000
4. Increased efficiency, reliability and competitiveness of regional transport and telecommunications infrastructure.	7,970,000	--	--	--	7,970,000
Total	19,475,000	--	8,195,000	2,500,000	30,170,000

USAID Mission Director: Valerie Dickson Horton

**AISIA AND NEAR EAST**

**Margaret Carpenter  
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## ASIA AND THE NEAR EAST

<b>FY 1996 Development Assistance Fund Request</b> .....	<b>\$402,300,000</b>
<b>FY 1996 Economic Support Fund Request</b> .....	<b>\$2,185,530,000</b>
<b>FY 1996 P.L. 480 Title II Request</b> .....	<b>\$106,891,000</b>

Two of the Administration's highest foreign policy priorities are to promote comprehensive peace in the Middle East and to strengthen trade and other relations with Asia, the most dynamic and fastest-growing region in the world. USAID's programs in Asia and the Near East are helping to support those priorities, as well as to address the global challenges that affect regional stability and economic development, such as environmental degradation, unsustainable population growth, and endemic poverty. Increasingly, conditions in Asia and the Near East directly influence American jobs, prosperity, and security. USAID assistance in the region is designed to assure that the United States has stable, responsible, and prosperous partners who share our goals of peace, open societies, and market economies.

As a vast and diverse area, Asia and the Near East present multiple challenges and opportunities to the United States in the post-Cold War period.

### **Securing Peace in the Middle East.**

U.S. interests in the Middle East remain focused on the Arab-Israeli conflict, one of the most intractable problems of this century. The signing of the Declaration of Principles on the White House lawn in September 1993 marked a dramatic turning point in negotiations between the Israelis and Palestinians. In response, the United States and other donors pledged to support the peace process by "changing the realities on the ground" in the West Bank and Gaza. While providing some assistance to emerging Palestinian institutions, USAID continues to focus the bulk of its assistance on activities that provide immediate and tangible benefits to a wide range of Palestinians, from funding for civil servants' salaries to job-creation programs that also clean up neighborhoods, upgrade housing and schools, and improve water and sewer systems. USAID programs in Jordan, Lebanon, Egypt, and Morocco also reflect the role of these countries in the efforts to secure a comprehensive peace in the Middle East.

### **Building a New "Pacific Community."**

U.S. interests in Asia have changed dramatically in recent years from combatting communism to building what President Clinton has called a new "Pacific Community" of shared prosperity, security, and freedom. The end of the Cold War and years of U.S. economic assistance have contributed to the rapid transformation of economies and even political systems throughout Asia. Today Asia is the most lucrative region for American exports and jobs. U.S. trade across the Pacific is half again as large as trade across the Atlantic, and U.S. exports to Asia account for about 2.5 million American jobs. The emergence of democratic institutions has helped secure the gains of many of our new trading partners.

Yet Asia is a vast and diverse region. While some countries in the region are now proud that their relations with the United States are based increasingly on trade, in others, USAID assistance remains an essential catalyst to deepen economic reform and stimulate trade expansion. Record-breaking rates of economic growth may not be sustainable in the face of exponential population growth, persistent poverty, worsening environmental conditions, and weak social infrastructure. Unattended, these problems will limit markets for U.S. products, and may contribute to regional conflicts that can only be resolved by costly international intervention.

In the last few years, USAID has supported the policy reforms necessary to create thriving economies and good trading partners. With growth and reform, USAID is now increasingly addressing the global problems in Asia that require international solutions, such as HIV/AIDS, environmental protection, and

new approaches to limiting population growth. U.S. assistance also encourages more open and effective governance and greater respect for human rights.

### **The Development Challenge.**

Together the Asia and Near East regions are of major -- and growing -- importance to the United States and the future of the globe. The sheer population size and economic growth rates of these areas represent both enormous potential markets for U.S. goods and services, and daunting challenges to economic development. Successes to date in reducing population growth rates and levels of poverty should not obscure the magnitude of remaining problems. The regions' human and other resources must be managed carefully to keep them from becoming liabilities. Since few countries can do so without outside assistance, USAID support is designed to help them deal with this dilemma.

The population of Asia and the Near East, already more than half the world's total, is expected to double in the next 30 years. Women in USAID-assisted countries in Asia and the Near East now average two fewer children today than their mothers 30 years ago. Yet the average 2.2% annual population growth rate still produces staggering numbers of additional people each year who need food, shelter, jobs, and social services. Growing populations also create new strains on infrastructure and the environment.

**Persistent Poverty Amid Growth and Prosperity.** Asia and the Near East account for two-thirds of the world's poor, a disproportionate burden for developing countries with limited resources. With economic growth and reform, some countries have been remarkably successful in addressing poverty. Indonesia, for instance, has reduced the percentage of people living in poverty from 60% in 1970 to less than 15% in 1990. India, with a population approaching one billion, has more poor people than all of sub-Saharan Africa. Half of the world's infant and child deaths occur in Asia and the Near East, and half of those deaths alone are in India's large pockets of poverty.

As countries in Asia and the Near East successfully lift their citizens out of poverty, they create resources for national development, and they expand potential U.S. markets. Failure to maintain this momentum, however, could threaten future economic growth in the United States, as well as the dramatic improvements made in health, education, and quality of life since the 1970s. To tackle poverty and promote economic development, countries in Asia and the Near East must continue to address high population growth rates, high infant and maternal mortality, low female literacy, and new threats such as HIV/AIDS. Several countries in these regions still have very high fertility rates. Women in Jordan and Nepal continue to have an average of five children. Yemen, Cambodia, and Laos have among the highest rates of infant and child mortality in the world. India has made great strides in basic education since its independence in 1947. Although its literacy rate has risen from 18% to 50%, population growth has created 50 million more illiterate Indians today than at independence.

**Political and Economic Diversity.** USAID faces particular challenges in helping countries in Asia and the Near East address sustainable development, in part because these regions are so diverse. Their enormous cultural, religious, economic, political, and physical differences must be factored into assistance programs. There are long-standing democracies (India, Sri Lanka, and Israel), non-democratic regimes (Laos and Burma), and nascent democracies (Bangladesh, Yemen, and Nepal). There are liberalizing monarchies (Morocco and Jordan), countries in transition to democracy (Cambodia and Mongolia), and emerging administrative authorities in Gaza and the West Bank. The area has both star economic performers (Thailand and Tunisia) and some of the world's poorest countries (Cambodia, Nepal, Yemen, Bangladesh, Burma, and Laos). It also includes countries whose economies are growing at rates of 5% per year or more (Indonesia, India, and Israel). In addition to these political and economic differences, other problems accentuate diversity in these regions and demand special attention to assure that they do not undermine the potential for sustainable development.

**Women and Development.** The generally low status of women presents another development challenge. Women in Asia and the Near East have benefited less from social and economic changes than women in any other region of the world. Failure to address women's health, education, and economic roles exacerbates the difficulty and costs of development. On the other hand, improvements in their status often bring parallel improvements in fertility rates, household income, and child mortality -- all necessary changes for sustained economic growth. Female life expectancy, normally 10% higher than for males, is only imperceptibly higher in Nepal, Pakistan, Yemen, Bangladesh, Egypt, Tunisia, and India. This dismal state is associated with many factors. Maternal mortality rates in seven countries (Bangladesh, Cambodia, India, Indonesia, Laos, Nepal, and Yemen) remain among the highest in the world. In Nepal, the maternal mortality rate is 833 women per 100,000 live births, compared with fewer than 10 per 100,000 live births in developed countries. Women also lag behind men in access to educational and economic opportunities in Asia and the Near East. The Cairo Conference on Population and Development highlighted the role of female education and employment in lowering fertility, lessons also borne out by USAID-funded projects in Bangladesh and Nepal.

**New Diseases Threaten Growth.** The HIV/AIDS epidemic poses another threat to economic and social development in the Near East and particularly in Asia. In 1993, the greatest increases in the incidence of HIV/AIDS occurred in Asia. Estimates of the cumulative numbers of HIV cases increased by 33% between June and December 1993. At the current rates, Asia may surpass Africa in cumulative number of infections by the end of the decade. Thailand and India are epicenters of an epidemic that is spreading rapidly into every country in Asia. There are approximately 600,000 cases of HIV in Thailand. HIV prevalence rates reach 70% in some high-risk groups. The World Health Organization estimates that, by the year 2000, the incidence of HIV could be over 15 million in India, one to three million in Thailand, and one to three million in Indonesia. In Thailand alone, the direct and indirect costs of the AIDS epidemic may surpass \$8 billion by the year 2000.

**The Environmental Challenge.** Economic and population growth has dramatically increased pressures on the environment in Asia and the Near East. Continued economic growth demands the more efficient and sustainable use of the region's increasingly scarce natural resources. Growing ground-water, air and other pollution problems have accompanied the rapid growth, especially in urban areas. The percentage of the region's people living in urban areas will increase to over 50% by the year 2025. Eleven of the world's 25 megacities (10 million or more inhabitants) will be in Asia and the Near East. In India alone, there will be more than 40 cities with one million or more inhabitants.

The Asia and Near East regions now produce over 40% of the total carbon dioxide emissions of developing countries and approximately 18% of worldwide emissions. Greenhouse gas emissions in India, already high, are projected to triple between 1987 and 2010, unless current practices change.

The region is also home to key global assets that must be carefully managed for sustainable development. India is an important source of global biodiversity. Twenty globally important food crops, including rice and millet, have their origins in India. Indonesia has the world's second-largest rain forest. Uncontrolled exploitation of these valuable natural resources must give way to sustainable use. In East Asia, for example, timber is being cut and forests are being converted to agricultural land at the highest rate of any tropical region in the world. The rapid loss of forest cover undermines conservation efforts and risks reducing the world's biodiversity.

#### **The Commercial Significance of Asia and the Near East.**

The human and natural resources in Asia and the Near East have helped make these two regions essential -- and potentially much greater -- markets for U.S. goods and services. U.S. trade with Asia is growing at the fastest rate of any area in the developing world, providing a strong stimulus for employment and economic growth in the United States. U.S. exports to Asia and the Near East grew by nearly 13% per year between 1985 and 1993, on average, surpassing \$113 billion in 1994. U.S. trade with reforming economies grew even faster. Continued U.S. efforts to support economic reform

and promote more open trading systems, including through regional mechanisms such as the Asia-Pacific Economic Cooperation forum, will be critical to maintaining and expanding American access to trade and investment.

Expanding economies and growing middle classes in Asia and the Near East are creating vast new opportunities for the involvement of American companies in technology and infrastructure development. These regions are growing consumers of U.S. energy and environmental technologies, which are a key to helping businesses adopt sustainable production techniques. With technical assistance from USAID, many countries in the region are opening vital sectors of their economies to private and foreign investment. In India, for instance, regulatory reform and other changes will create a market for private investment in power, telecommunications, and transport that is estimated to range from \$100 to \$200 billion in the next five years. The potential for such expansion exists throughout Asia and the Near East.

### **The USAID Strategy for More Open Markets and Societies.**

The goal of broadly shared economic growth underpins all USAID efforts in Asia and the Near East. Such growth is essential if our partners are to sustain their development successes to date and increase their capacity to finance a greater share of development themselves. USAID programs help create enabling environments for sustainable development and greater interdependence among countries. Progress toward sustainable development minimizes debilitating domestic and regional conflicts and promotes market links with the U.S. economy.

Through support for economic policy and institutional reform, population and health services, democratic governance, and environmental policy, USAID country programs are promoting the four areas that have the greatest impact on sustainable development in the developing world. The most successful examples of development in Asia and the Near East are countries with outward-looking economies, expanding trade, increased participation by its citizens in the market place, better access to government and public policy institutions, increased investments in the quantity and quality of social services (especially health and education), and higher environmental quality standards. These countries are also more likely to engage in constructive dialogue to resolve regional conflicts and manage internal strife.

**Broad Participation in Economic Growth.** USAID's economic growth strategy emphasizes economic policy reform designed to increase access for as many people as possible to markets, jobs, and other economic opportunities. Ten of the seventeen Asia and Near East country programs have strategic objectives in this sector, and over half of all economic growth funds support education and training so that people in our partner countries can make better economic decisions. USAID is supporting microenterprise projects in one-third of the countries in Asia and the Near East in order to expand participation of poorer people, especially women, in economic growth. USAID also is committing more funds to helping women participate in the labor force, in part by educating women and girls.

**Policy and Institutional Reform.** USAID programs continue to support policy and institutional reform. For example, USAID technical assistance is helping mobilize and broaden access to domestic capital markets. Such markets generate capital and create systems for financing new, small businesses and low-income housing. They help state-run institutions to privatize, and they facilitate the greater use of clean, power-generating technologies. These activities are drawing more people into the economic growth process as producers and consumers. In turn, broad-based economic growth further stimulates the demand for open governments and open markets.

**Population, Health and Nutrition.** Building capacity to address population, health, and nutrition problems is another key aspect of sustainable development. All but two USAID country programs in Asia and Near East have strategic objectives in population, health and nutrition. Resources will continue to be concentrated in countries that contribute significantly to global population and health



problems, as well as in countries where these problems impede sustainable development. Family planning programs that have been enormously successful in reaching large numbers of people to date will be refined to serve established clients better, as well as hard-to-reach groups. USAID investments will focus on improving and integrating family planning services and on ensuring institutional and financial sustainability. In addition, regional initiatives will target slowing the rapid spread of the HIV/AIDS epidemic across national borders.

USAID also is paying more attention to the broad policy and institutional environments in which population and health programs operate. The policy dialogue includes financing and better allocation of resources for preventive care and private provision of services. Successful policy reform often requires decentralizing resource control and encouraging private service delivery.

**Environment.** USAID's strategy for protecting the environment has two objectives. The first, reducing greenhouse gas emissions and preserving biodiversity, addresses U.S. global interests. The second, addressing economic and environmental practices that impede sustainable development, helps partner countries and local communities strike a balance between economic growth and environmental conservation.

Environmental problems in the Asia and Near East area are diverse and of immense magnitude. Seven USAID country programs in the region have primary strategic objectives in environment, while others have integrated environmental activities into programs in health, democracy and economic growth. For example, policy and economic reform activities address the pricing and management of land, forest, water, and energy resources. With scarce water in the Near East, USAID has developed programs to change water usage and resolve conflicts over water use.

Asia must meet enormous demands for energy while addressing problems associated with urban water and waste, and environmental degradation. USAID, therefore, has developed programs for this region that support the transfer of cleaner, more efficient technologies and the development of pollution control and prevention systems.

**Democracy and Governance.** Given the wide range of political systems found in Asia and the Near East, USAID programming in nurturing democratic practices and institutions is necessarily varied. All of the programs, however, promote pluralism in societies and transparency and accountability in governments. They build upon worldwide trends towards the adoption of democratic practices and the recognition of universal human rights. Eight USAID country programs in the area have strategic objectives supporting democracy and governance. Objectives range from increasing civic participation, to organizing free and fair elections, and improving judicial and legal systems and access to them. Nongovernmental human rights and advocacy organizations play a critical role in USAID democracy programs.

**Humanitarian and Disaster Assistance.** USAID's non-emergency food aid strategy supports both sustainable development and humanitarian objectives. The provision of food aid is an integral part of several USAID country programs. In most cases, it provides supplemental nutrition to improve maternal and child health and, in some cases, keeps children in school longer. Vulnerable groups who cannot yet fully participate in growing economies are the primary beneficiaries of these resources. Finally, disasters, such as floods in Bangladesh and volcanic eruptions in the Philippines, will continue, and USAID will provide appropriate relief.

### **Achieving Results**

USAID aims to achieve a wide distribution of benefits that are sustainable and also serve the U.S. national interest. Given the diminishing level of U.S. assistance, USAID actively solicits the participation of other donors and partners to contribute additional resources. The following examples cover the range of investments in USAID's four sustainable development strategies.

### **Encouraging Broad Based Economic Growth:**

- In Egypt, USAID-supported sectoral policy reforms to liberalize acreage and price controls on many crops have benefited many of the country's small producers and have increased food supplies for consumers. Between 1986 and 1992, the production of wheat rose by 65%, rice by 58%, sorghum by 59% and corn by 35%.
- In Indonesia, USAID support instituted a profitable village-level credit system for small entrepreneurs. By the end of 1992, the system loaned over \$900 million to over 3 million borrowers. Over 50% of the borrowers are women. Nearly \$1.8 billion had been deposited by over 11 million people. Market rates of interest are charged and the system now operates without USAID assistance. The project's success prompted the World Bank to extend the concepts and techniques to other parts of Indonesia.
- In Bangladesh, USAID-supported policy and institutional changes to privatize the import and distribution of fertilizer created over 110,000 jobs, increased food grain production, and lowered consumer food prices. Many poor people benefited directly as their main food source remains grain. These changes were critical to Bangladesh achieving rice self-sufficiency.
- In Sri Lanka, USAID assistance to its fledgling capital market has brought in nearly 20,000 new investors and enabled the privatization of a number of enterprises, creating nearly 10,000 new business owners and many new jobs.
- In India, USAID is helping the Indian government and states evaluate and process foreign private power investment proposals. Over \$5.5 billion in potential U.S. investments for cleaner, more efficient power production have been identified by this assistance.
- In Nepal, assistance to develop markets and for the transfer of new seeds resulted in one disadvantaged region experiencing 30% per year growth in high value horticultural crops. In 1993, nearly 3,000 small farm families were benefiting from new activities.
- In Sri Lanka, USAID helped a local nongovernmental organization provide business services to small women-owned enterprises. By 1993, all of the over 2,000 women increased their incomes and many held loans from commercial banks.
- In India, USAID helped develop the country's housing finance system. In 1979, one company provided \$2 million of housing loans. By 1992, over 270 private companies provided nearly \$500 million dollars in loans through over 300 offices. More than 50% of all the beneficiaries have been households below the median-income level. A quarter of all borrowers were low-income families.

### **Stabilizing Population Growth:**

- In Morocco, Egypt, India, Bangladesh and the Philippines, the use of contraceptives had surpassed 40% for married women. Even more impressive gains have been made in Thailand, Sri Lanka and Indonesia, where use has surpassed 50%. In Indonesia, each dollar spent on family planning will result in \$12.50 of savings in public expenditure for health and education.
- In Egypt, USAID support helped reduce infant mortality from 121 infants per 1,000 live births in 1980 to 57 per 1,000 in 1990, a drop of nearly 53%. Similar improvements were made between 1980 and 1990 in Morocco (42%), Nepal (30%), Bangladesh (31%), and the Philippines (31%).

### **Protecting the Environment:**

- In Asia, USAID has established a mechanism, the United States-Asia Environmental Partnership (USAEP), that promotes partnerships between U.S. and developing country private companies, governments and nongovernmental organizations to transfer environmental technologies and practices. Based on market principles, this mechanism has already helped position U.S. environmental technologies for export to ten countries. The potential value amounts to over \$400 million through sales, joint ventures and licenses. Prospects for additional technology transfer range upwards of \$5 billion over the next five years.
- In Indonesia, USAID's successful support for integrated pest management resulted in small farmers needing 50% less pesticide while rice production increased by 12%. Government pesticide subsidies dropped by \$120 million per year. This \$7 million program's success leveraged another \$35 million of World Bank funds to expand the program to other parts of Indonesia.
- In Tunisia, Morocco, Jordan, and Egypt, USAID is extending technologies to reduce pollutants from industries. In one company alone, USAID's program helped reduce lead pollution by 60% and reduce production costs by more than \$500,000 per year.
- In Egypt, USAID investments in waste-water treatment facilities in Cairo tripled capacity from 200,000 to 650,000 cubic meters per day. The plant now produces potable water and provides services for some of the poorest and most densely populated areas of central Cairo. Three million people receive more and cleaner water as a result of the project.
- In nine Asia and Near East countries, including Nepal and Indonesia, USAID is working with nongovernmental organizations and local communities to help them better manage or participate in the management of their forests, national park and reserves (e.g, the sustainable cutting of timber and the development of ecotourism activities).
- In India, USAID has helped establish a gene bank to collect and store up to 600,000 germ plasm species of tropical crops. Countries from all over the world are already getting samples from this global resource. USAID is now working with India to expand the gene bank's capacity and undertake collaborative research of mutual Indo-U.S. interest.

### **Building Democracy:**

- Prior to the Cambodian elections, USAID supported American nongovernmental organizations (NGOs) to provide training of the leadership and staff of Cambodia's 20 political parties in 17 of 21 provinces. Election monitoring training was held despite Khmer Rouge and other intimidation which had forced earlier United Nations Transitional Authority in Cambodia (UNTAC) to abandon its own training plans. The American NGOs provided further training after the elections on the functions of political parties in a legislature for 50 of the 120 members of the new National Assembly.
- In Bangladesh, USAID supported a series of successful local elections since the early 1990s and a free and fair national election in 1991, resulting in the first peaceful transfer of national leadership in that country's history.
- In Nepal, USAID supported the country's first multi-party elections in 32 years in May 1991 by supporting various local groups' work in voter education and election monitoring. In addition, USAID funded International Foundation for Electoral Systems' participation in the election observation teams.

- Regional activities to increase the involvement of women in political and judicial processes are supported by USAID. Women from across the region formed the Asia-Pacific Women in Politics Network in 1993, co-funded by The Asia Foundation and USAID. While only in its infancy, this network has allowed dynamic but isolated Asian and Pacific women political leaders to network, learn from each other and innovate further in their home country.

#### **Providing Humanitarian Assistance:**

- In the Philippines, USAID provided the equipment and expertise to predict the eruption of Mt. Pinatubo in 1991. As a result of advance planning, 80,000 people and \$1 billion in U.S. and Filipino assets were saved.
- In Cambodia, USAID assistance successfully repatriated 360,000 refugees to Cambodia from Thailand. Assistance was provided to de-mine rural secondary roads in order to facilitate refugee repatriation and to open and integrate rural areas into the national economy. Some \$22 million was channeled through refugee repatriation programs of the United Nations and the International Committee of the Red Cross. The program also furnished humanitarian assistance to vulnerable groups -- children, flood and drought victims, widows, orphans, and the disabled. The effort supported civilian elements of the non-communists to enable them to provide health, community development and food assistance to civilians in areas of Cambodia under their control.
- In India, USAID and its American partners are sponsoring the largest food aid program in the world. One of these activities reaches over eight million high-risk children and pregnant and lactating mothers annually. According to a recent evaluation, USAID assistance in this project is associated with a 21% reduction in the percentage of low birth weight babies; a 39% reduction in the percentage of severely malnourished children between three and six years old, and a 61% reduction in severely malnourished children under three in the project area.

#### **Management and Programming Challenges.**

The Asia and Near East area constitutes a supportive environment for the effective use of USAID resources. While some countries remain desperately poor, most can report progress; a number have achieved outstanding successes. USAID must now build upon the progress throughout Asia and the Near East as it refines bilateral relationships in a post-Cold War era. These relationships will be based on political and economic partnerships. Political partnerships promote regional peace, economic growth and greater regional interdependence. Economic partnerships promote U.S.-developing country trade and technology transfers and support U.S. geopolitical goals.

Resource allocations respond to both U.S. national interests and the development performance of the specific country and USAID's country program. In general, USAID has been devoting fewer resources to Asia and Near East countries, with the exception of Egypt, Israel, and West Bank and Gaza. USAID has phased out selected activities and country programs. Six country missions have closed or will be closing: Afghanistan, Pakistan, South Pacific Regional, Oman, Thailand (bilateral programs only), and Tunisia. USAID's overall in-country presence has been reduced. Reductions will continue insofar as countries experience economic growth and acquire the financial and technical capacity to manage their own development with reduced, more specialized donor inputs.

#### **Donor Coordination.**

USAID missions are working to ensure that diminishing U.S. resources leverage other bilateral and multilateral donor resources. While USAID actively seeks coordination with other donors, the success of these efforts depends on the commitment of each of the partners. Often, other donors contribute

resources to a program or project after USAID and host country development partners have demonstrated its effectiveness. USAID has recently entered into one of the most progressive donor coordination efforts to date: the Common Agenda with the Government of Japan. Begun in 1994, a part of the Common Agenda establishes a framework for USAID and Japan to jointly identify and implement activities that build on the comparative abilities of each.

#### **U.S. Leadership Role.**

USAID continues to advance innovative ideas and technologies that can have a development impact within five to eight years. Other donors and governments often look to USAID for ideas and experiences in the areas of economic policy, family planning, and health that can improve the performance of their programs and economies. This is particularly true in countries where USAID has had a long involvement in enhancing the country's own capacity to formulate policies and reform programs. Developing countries also are asking increasingly for USAID assistance to tap into the U.S. environmental experiences and technologies.

In recent years, USAID has been supplying U.S. experience and ideas on how to mobilize private capital markets in our partner countries. Better functioning domestic financial markets can provide more capital for development than all donors combined will ever be able to do. Strong financial markets are an important step, as Asia and Near East countries must shoulder an increasing share of the cost of financing development. The billions of dollars being organized for the construction of power plants in India will make a critical contribution to the country's continued economic growth and creation of new jobs. The development of national and local financial markets also contributes to the greater participation of people below the median income. Results from USAID private sector activities in Indonesia, India and Sri Lanka indicate that lower-income people can save more and borrow responsibly.

USAID's involvement in the transfer of ideas and technologies is also important. Transfers of ideas are low-cost, high development-impact interventions when compared to large infrastructure projects. USAID assistance also helps maintain U.S. influence, even though fewer U.S. development resources are being devoted to the region. Indeed, USAID now provides less than 8% of total development assistance in nearly every country it assists. Even in Egypt, USAID resources account for only 20% of total development resource inflows. USAID provides an even lower percentage of total development assistance in countries where it has no staff presence.

#### **External Debt.**

External debt to the United States is a major USAID management challenge in four countries in the Asia and Near East area. Israel and Egypt have \$3.5 billion and \$5.9 billion, respectively, of debt outstanding to the United States, most of it related to military loan programs. Jordan currently has \$400 million of debt outstanding to the United States. Another \$200 million of Jordan's debt was forgiven as part of a multi-national debt forgiveness and rescheduling effort conducted in 1994. Because of Jordan's importance to the Middle East Peace process, an additional request for debt forgiveness is contained in the FY 1995 supplemental request. Other countries with debts owed the United States include Bangladesh (\$1.1 billion in P.L. 480 Title I debt), Cambodia (\$211 million) and Vietnam, \$109 million).

#### **Country Performance.**

Countries can be grouped by overall economic and social performance. Experience indicates, however, that rigid categorizations can be problematic. Korea is a former USAID partner once categorized as a poor performer. India, Bangladesh, Thailand, the Philippines and Indonesia also have defied early predictions of slow economic reform and growth. In predicting performance, USAID uses multiple

indicators, such as the United Nations Human Development Index, complemented by current information and more detailed assessments derived from USAID's in-country presence.

The countries included in the following groups are those in which USAID is implementing sustainable development programs and has an in-country presence. Israel is not included in the groups, nor are USAID's most recent graduates, Tunisia, Thailand and Oman, since bilateral assistance to these three countries is ending.

The first group includes the following countries which have made significant strides in more than one key area: Jordan, the Philippines, Morocco, and Indonesia. With relatively strong performances, USAID bilateral relationships and levels of in-country presence in these countries will change in the foreseeable future. The United States assists countries for different reasons and any changes in the USAID relationship must be based and paced according to those reasons. The eventual form of the USAID-partner country relationship will be more narrowly defined on the basis of U.S. interests and specific development opportunities. Protecting global biodiversity, limiting cross-border HIV transmission, and supporting regional peace initiatives are several examples of possible continued involvement.

The second group of countries consists of good development partners who are making progress in key areas: India, Bangladesh, Sri Lanka, and Egypt. They are benefiting from USAID resources, but it will some time before they may be able to finance the bulk of development's costs themselves. The third grouping consists of countries whose development prospects must be considered very long term as they are among the poorest in the world. Nepal and Yemen fall into this grouping.

The third group consists of countries in the midst of major transitions. The fluidity and uncertainty of their situations require special consideration. This group includes Cambodia, Mongolia, Lebanon, and the areas of West Bank and Gaza administered by the Palestine Authority. These countries will be moved to other groupings when their internal situations stabilize.

#### **Program Concentration.**

The total development assistance requested for Asia and the Near East is \$402,300,000. Economic growth activities account for \$101,800,000, or 27% of the total. In this sustainable development area, basic education, HIV/AIDS, and nutrition programs will receive \$49,900,000, or one-half the economic growth total. These priorities reflect the general worldwide agreement reached at the 1994 Cairo Conference on what is needed to help females participate more fully in development. Each of these activities focuses on assisting women and girls. Population and related health activities require \$170,500,000 (40%). Environmental programs account for \$89,200,000 (22%). USAID democracy and governance programs total \$40,700,000 (11%).

P.L. 480 Title II food aid proposed for India, Bangladesh, the Philippines and Indonesia totals \$106,891,000.

Economic Support Funds are requested at \$2,186,000,000. In addition to support for Israel and Egypt, ESF will support development activities in two countries in transition (Cambodia and Mongolia), regional democracy activities in East and Southeast Asia, and programs in Jordan, Lebanon, West Bank and Gaza and Middle East regional directly linked to the Middle East peace process.

## BANGLADESH

FY 1996 Development Assistance Fund Request: . . . . . \$ 61,232,000  
FY 1996 P.L. 480 Title II Request: . . . . . \$ 16,560,000

U.S. assistance helps the world's most densely populated country avoid excessive population growth and ensure food availability. These, and other successful U.S. programs intended to help Bangladesh achieve sustainable development through timely and preventive actions, serve to prevent refugee flows, environmental damage, and other spillover effects that would adversely affect United States interests and resources.

The United States is the lead donor in Bangladesh's successful but incomplete family planning program. On average, Bangladeshi women will now have 27 great grandchildren instead of 216. However, Bangladesh's population will eventually still exceed that of the United States, in an area the size of Wisconsin. The United States has been instrumental, with high yielding varieties of rice and fertilizer distribution programs, in helping Bangladesh achieve virtual self-sufficiency in rice. Continued support to programs which balance food production with increasing mouths to feed in the world's most densely populated nation prevents regional and global pressures that would result in difficult and costly issues for the United States.

The United States is also interested in strengthening the growth of market-oriented democracies. Increasing incomes for Bangladesh's large population expands opportunities for U.S. goods, services, and investments. Accordingly, U.S. assistance (5.23% of total aid inflows) promotes accelerated economic growth which is market-based and broadly shared within a free, pluralistic and democratic society. Bangladesh also provides troops in international peacekeeping activities of importance to the U.S.

### The Development Challenge.

With 830 people per square kilometer, Bangladesh is the world's most densely populated country, which places extreme pressure on the country's resources. As a result, approximately one-half of the population lives in poverty on an annual per capita income of \$220; approximately 30% of these people live in abject poverty. Malnutrition in Bangladesh is high--among the highest in the world for children under five years old--and infant mortality is above the average for low income countries. Male and female life expectancies in Bangladesh are also substantially below the average for low income countries.

With U.S. assistance, Bangladesh is successfully confronting many of its key developmental challenges. Since 1987, the total fertility rate declined by 28%, to four children per woman. Vaccination rates for children and women of reproductive age have increased. Virtual self-sufficiency in rice production has been achieved. The government budget now funds 33% of the country's development projects (up from 9% in 1990), and an increasing proportion of development resources is directed to basic human services including health, family planning and education. Free and fair elections at the national level were held in 1991 and, subsequently, many times at the local level. However, the political opposition has led demonstrations aimed at forcing the Prime Minister to step down, and the opposition members of the Parliament began a parliamentary boycott on December 28, 1994. U.S. assistance has been particularly important in helping to achieve Bangladesh's fertility decline and rice self-sufficiency successes.

U.S. assistance to Bangladesh focuses on reducing population growth, infant and child mortality, and food insecurity for the poor; and on encouraging responsive, representative government.

## **Strategic Objectives (SOs).**

USAID is pursuing eight strategic objectives in Bangladesh which address four of the Agency's integrated goals for sustainable development, along with the provision of humanitarian food assistance.

### **STABILIZING WORLD POPULATION GROWTH (\$38,177,000).**

#### **SO 1. Use of modern contraceptives by eligible couples increased (\$25,816,000).**

Increased modern contraceptive use is the most effective means to reduce fertility. USAID programs in Bangladesh have demonstrated that sustained support for family planning information and services can contribute to measurable reductions in fertility despite low economic and social indicators.

Activities. USAID activities focus on: (1) increasing access to family planning services through the private sector; (2) improving the quality of services available; and (3) supporting communication programs which encourage smaller families and better health practices.

Related Activities. USAID's family planning activities are complemented by those which expand micro-enterprise and wage-employment opportunities for women under SO 6 and promote the use of high impact maternal and child health interventions under SO 2. USAID also targets increased use of condoms by groups at high risk from sexually transmitted diseases, including the human immunodeficiency virus and the acquired immunodeficiency syndrome.

Indicators. The following indicators and targets will measure achievement of this objective: (1) overall contraceptive method use rate among married women of reproductive age increased from 29.8% in 1986 to 50% in 1997; (2) modern contraceptive method use rate among married women of reproductive age increased from 22.9% in 1986 to 42% in 1997; (3) reliance upon clinical methods of family planning increased from 36% in 1991 to 42% in 1997; and (4) percentage of national distribution of condoms sold by the Social Marketing Company increased from 60% in 1988 to 75% in 1997; and distribution of contraceptive pills increased from 21% in 1988 to 25% in 1997.

Feasibility and Cost-effectiveness. Contraceptive use (all methods) is now at 45%, hence, accomplishment of this objective is quite feasible, and its achievement will lead to substantial savings for the government. It has been estimated that social expenditures will be reduced by \$12.5 billion if the total fertility rate is reduced from 4.0 to 2.2 between 1993 and 2020.

Progress in 1993-1994. The estimated total fertility rate for 1994 is four children per woman, down from 5.6 in 1987. Current estimates for the total contraceptive prevalence rate (CPR) and the CPR for modern methods are 45% and 37%, respectively, up from 40% and 31%, respectively in 1991. Sales of condoms by the Social Marketing Company amounted to 68% of national distribution; sales of pills were 18%.

Donor Coordination. USAID is the largest bilateral donor supporting family planning activities in Bangladesh. USAID assistance complements that of the World Bank consortium (which includes the Canadian International Development Agency, the British Overseas Development Administration, and the Norwegian Agency for Development Cooperation, among others) and with the United Nations Population Fund (UNFPA). This consortium works primarily with public sector programs, while USAID focuses on private sector service delivery, technical assistance, training, and research.

Constraints. The primary constraints to a more effective national family planning program include poor performance of the public sector activities and a lack of adequate public financing.



**SO 2. Use of high impact maternal and child health services increased (\$2,750,000).**

USAID focuses on improving the health and survival of infants and children by increasing the availability of key child survival and maternal health services, including child spacing, through support to the public, nonprofit, and commercial sectors.

Activities. USAID supports activities to: (1) vaccinate urban children under one against six vaccine preventable diseases; (2) expand and improve nongovernmental maternal and child health (MCH) services provided by nongovernmental organizations (NGOs); and (3) expand the private sale of oral rehydration salts (ORS) packets, which has proven effective in preventing infant and child deaths from diarrheal diseases, through the Social Marketing Company (SMC).

Indicators. Achievement of this objective will be measured by the following indicators and targets: (1) infant mortality rate reduced from 128 per 1,000 live births in 1986 to 83 in 1997; (2) child (under five) mortality rate reduced from 168 per 1,000 children surviving to 59 months of age in 1986 to 120 in 1997; (3) percentage of urban children under one year of age fully vaccinated increased from 5% in 1987 to 85% in 1997; (4) percentage of urban women (age 15-49) fully vaccinated against tetanus increased from 5% in 1987 to 85% in 1997; and (5) sales of ORS packets by the Social Marketing Company increased from four million in 1987 to 35 million in 1997 (i.e., 90% of commercial sales).

Feasibility and Cost-effectiveness. Infant and child mortality has been significantly reduced in Bangladesh. Achievement of this objective, therefore, is to be expected.

Progress in 1993-1994. Over the seven-year period between 1987 and 1994, the infant mortality rate dropped by 30% to 90 deaths per 1,000; the child mortality rate fell by 21% to 132 deaths per 1,000; the percentage of urban children under one fully vaccinated increased from 5% to 75%; the percentage of urban women fully vaccinated against tetanus increased from 5% to 82%; and sales of ORS packets by the Social Marketing Company amounted to 85% of national distribution.

Donor Coordination. USAID and the United Nations Childrens Fund (UNICEF) are the two largest donors in this field. USAID concentrates on urban vaccinations and sales of ORS packets delivered through the private sector and coordinates activities with the World Bank consortium. UNICEF concentrates its MCH activities in rural areas.

Constraints. The primary constraint to increased use of high impact MCH services is inadequate coordination of family planning and health services within the public sector and between the public and NGO sectors at the national and local levels.

**SO 3. Institutional, programmatic, and financial sustainability of family planning and maternal and child health programs enhanced (\$9,611,000).**

The long-term future of family planning service delivery depends upon sufficient financing and institutional capabilities. Accordingly, increased emphasis is being paid to such issues as cost effectiveness, efficiency of management systems and services, decreasing dependence on donors for recurrent cost financing, and user fees.

Activities. USAID supports activities that: (1) improve the efficiency of organizations that provide family planning and MCH services; (2) find ways for providers and program managers to become less dependent on donor financial and technical assistance; (3) improve the institutional capabilities of service delivery organizations; and (4) enhance the capability of indigenous organizations to design, conduct and apply operations research.

Indicators. The following indicators will measure achievement of this objective: (1) Percent of overall recurrent costs of the family planning program funded by donors reduced from 73% in 1990 to 65%

in 1997; (2) Percentage of operating costs of the Social Marketing Company covered by sales income increased from 15% in 1993 to 25% in 1995; and (3) costs per couple year of contraceptive protection reduced.

Feasibility and Cost-effectiveness. Donors currently provide over 70% of program costs. Hence, it is increasingly important to focus program resources on issues of cost-effectiveness, improved efficiency, and activities which increase the ability of families to finance family planning services.

Progress in 1993-1994. The Social Marketing Company increased the percentage of operating costs covered by sales proceeds from 15% to 18%. In addition, research on the costs of the national family planning program and alternate service delivery systems has been conducted.

Donor Coordination. As with other population strategic objectives, USAID works closely with the World Bank consortium and UNFPA to coordinate activities.

Constraints. Household incomes for the majority of Bangladeshis are too low to permit them to bear the full cost of family planning and health services.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$17,297,000).**

**SO 4. Diets of the poor nutritionally enhanced. (\$8,450,000 which includes \$3,700,000 from Development Assistance; and \$4,750,000 from P.L. 480 Title II Humanitarian Assistance).**

Consumption by the poor of fish, oil, pulses and vegetables high in betacarotene and other essential micronutrients is low due to lack of availability (e.g., low production of dark green leafy vegetables) and accessibility by poor households (e.g., foodgrain purchases preclude purchases of other items).

Activities. USAID supports activities in two areas: (1) increasing the production and consumption of micronutrient and protein rich foods by poor households; and (2) increasing the effectiveness of targeted food programs.

Indicators. The following indicators will be used to measure achievement of this objective: (1) Wasting (low weight for height) for children aged 6 to 59 months reduced; (2) Night blindness among children 24 to 71 months reduced; (3) Numbers of poor women and poor households overall producing fish and vegetables increased; and (4) Percentage of public food distribution system going to effectively targeted programs increased.

Feasibility and Cost-effectiveness. Recent efforts to introduce low-cost fish farming and homestead gardening through nongovernmental organizations have been extremely successful, and there has been strong interest in expanding these programs.

Progress in 1993-1994. Effective food aid programs, including P.L. 480 Title III programmed through FY 1994, plus food policy reforms, have better targeted public food towards the poor. Over the past several years, homestead production and consumption of fish and vegetables by poor women has increased. Between 1992 and 1993, monthly food expenditures for rural households increased by 20%.

Donor Coordination. USAID is a leading member of the Strengthening Institutions for Food Aid Development (SIFAD), which is a multi-donor and host government task force that works to improve the effectiveness, efficiency and developmental impact of non-emergency food aid.

Constraints. While the technologies for low-cost fish farming and homestead gardening are well known in some areas of Bangladesh, there is not as yet an adequate nationwide system to transfer these technologies to poor households.

**SO 5. Agricultural productivity per hectare increased (\$18,857,000 which includes \$7,047,000 from Development Assistance for Economic Growth; and \$11,810,000 from P.L. 480 Title II Humanitarian Assistance).**

Because all available agricultural land is currently under production, productivity per hectare must be increased if Bangladesh is to continue to feed itself. Productivity per hectare can be improved through increased use of inputs (e.g., fertilizer, water pumps), introduction of new technologies (e.g., improved seeds) and increased access to markets and market information (e.g., through improved roads, electrification, and changes in policies).

Activities. USAID supports activities that: (1) promote the use of technologies which enhance productivity and are environmentally sound; (2) change government policies to increase farmers' access to markets; and (3) improve rural market roads and electricity distribution systems.

Indicators. Achievement of this objective will be measured by the following indicators and targets: (1) Real value added in agriculture increased 33% between 1990 and 1997; (2) Number of farmers using more productive technologies increased from 50,000 in 1994 to 1,200,000 in 2000; (3) Tonnage of fertilizer and improved seed marketed in Bangladesh increased; (4) Use of electricity for irrigation increased from 32,000 pumps in 1993 to 58,000 pumps in 2000; (5) 10,000 kilometers of environmentally sound market roads added to rural road network by 1997.

Feasibility and Cost-effectiveness. Bangladesh's rice production has outpaced population growth since the mid-1980s; however, yields per hectare have remained flat and below yields achieved by farmers in other countries who have adopted newer technologies for similar crops. The technology package used by most Bangladeshi farmers is more than 20 years old; and it has been overtaken by better, more productive technologies including alternate cultivation practices, higher yielding seed varieties, more sustainable irrigation techniques, and integrated pest management techniques which, elsewhere, have contributed to increased productivity. In addition, Bangladeshi farmers have been slow to adopt alternate, higher value crops which also contribute to increased agricultural productivity.

Progress in 1993-1994. Value added in agriculture increased by 7% over 1990-91. The number of electricity driven irrigation pumps increased by about 4,000. Activities to promote more productive and environmentally sound agricultural technologies and expansion of the rural road network begin in 1995.

Donor Coordination. | The United Nations Development Programme (UNDP), and the United Nations Food and Agriculture Organization (FAO), all multilateral development banks and almost all bilateral donors are involved in some aspect of agricultural productivity. These efforts are coordinated through frequent informal discussions of issues and activities.

Constraints. Farmers' access to newer, more productive agricultural technologies are constrained by a variety of factors including: (a) government controls over the production and distribution of agricultural inputs, which have been reduced but not eliminated; and (b) the limited knowledge farmers have about alternate technologies.

**SO 6: Real household income increased (\$7,697,000 which includes \$6,550,000 for Economic Growth and \$1,147,000 for Protecting the Environment).**

Increased real incomes enable poor households to increase consumption and savings and invest more in health, family planning and education. For the foreseeable future, the majority of the Bangladeshi work force will earn its income from agriculture, where incomes can be raised through increasing agricultural productivity. Expanding non-farm employment opportunities, particularly through micro- and small businesses development, also contributes to increased household incomes in rural areas.

**Activities.** USAID focuses on: (1) an enabling environment within which small and micro-entrepreneurs can operate profitably; (2) improved business efficiencies through skills training, introduction of better technologies, and non-traditional credit availability; and (3) improved levels of disaster preparedness to mitigate the amount of property and related income loss caused by disasters.

**Related Activities.** Unregulated industrial growth has contributed to environmental problems. USAID will selectively contribute technical assistance to mitigate such problems. Similarly, full economic participation by women is constrained by socio-cultural factors which USAID will address through leveraged interventions such as the provision of legal or mediation services.

**Indicators.** The following indicators and targets will measure achievement of this objective: (1) real household income of \$757 (at 1985 prices) in 1989 increased; (2) number of loans through USAID projects increased from 19,000 in 1992 to 59,000 by 1997; (3) private investment in GDP increased from 5.8% in 1990-91 to 12.3% in 2000; and (4) employment in agricultural and industrial sectors increased.

**Feasibility and Cost-effectiveness.** USAID experience has demonstrated that poor Bangladeshis are anxious to learn new skills and work hard to increase their incomes if given the opportunities. Increasing household income by improving the efficiency and productivity of Bangladeshi small enterprises and workers themselves has proven to be a sustainable approach to this objective.

**Progress in 1993-1994.** Between 1992 and 1993, poor rural households enjoyed an increase in non-land asset ownership, reflecting an increase in income available for non-food purchases. USAID involvement in the emergence of private fertilizer and rice markets has generated an estimated 110,000 and 90,000 jobs, respectively. USAID loans to poor women result in daily incomes of 30% to 300% above the daily rate for agricultural labor. The bankruptcy act was revised; procedures for registering foreign investments were simplified; and export controls reduced. Activities related to disaster preparedness begin in 1995.

**Donor Coordination.** USAID resources are joined with those of the World Bank to support reforms in the financial and industrial sectors, with those of the Asian Development Bank to support market reforms in the agricultural sector, and with those of the UNDP and British Overseas Development Administration (ODA) to support administrative reform.

**Constraints.** Natural disasters (primarily floods and cyclones), which hit Bangladesh an average of every 18 months, interrupt productive activities and, therefore, reduce incomes. Rapid population growth limits per capita investment in human resources and increases the surplus of untrained labor. Income-generating opportunities must be created more rapidly than the rapid growth rate of the labor force if average household incomes are to be increased.

## **BUILDING DEMOCRACY (\$4,611,000).**

### **SO 7. Citizen access to public policy information increased (\$1,940,000).**

For a democracy to be responsive, citizens must be involved and informed. Media coverage of public policy issues, the strength of issue-oriented advocacy groups need to be improved, and political campaigns need to be issue driven.

**Activities.** USAID funds activities to: (1) improve policy analysis and disseminate the results of the analyses by civil society organizations; (2) increase the depth and breadth of public policy and government performance reporting by print journalists; and (3) increase the issue oriented content of campaigns.

**Indicators.** The following indicators will measure achievement of this objective: (1) Percentage of

voters who describe themselves as well-informed on election issues increased; (2) Publications of select civil society organizations (CSOs) distributed to a larger audience; and (3) Public policy content of select newspapers and newsweeklies increased.

Feasibility and Cost-effectiveness. Despite relatively low literacy rates, there are a large number of newspapers and news weeklies in circulation in Bangladesh which are read by, or to, a large portion of the general population. A small number of CSOs focused on issues of public policy such as election administration, environment, human rights and family planning have also begun to emerge. Achieving this strategic objective, therefore, is quite feasible.

Progress in 1993-1994. Voter education programs will begin in 1995. However, CSOs researched and sponsored four workshops attended by the public and members of parliament on such topics as effectiveness of parliamentary committees, the budget process and the importance of an independent judiciary. Approximately 300 practicing journalists received training and the quality of press coverage of public policy issues is broadly recognized as improved.

Donor Coordination. USAID is the primary donor working in the area of citizen access to public policy information. Its work is carried out through collaboration with The Asia Foundation.

Constraints. Although print media are relatively free to operate in Bangladesh, their independence is somewhat compromised by the government's control of newsprint supplies. CSOs are also relatively free to operate, although some have encountered opposition from more conservative groups in the society.

#### **SO 8. Citizen participation in processes for achieving public policies increased. (\$2,671,000).**

USAID works to strengthen those institutions which enable citizens to become involved in government decision making. It focuses on public policy implementation rather than formulation to ensure that government is responsive and citizens track the performance of elected officials.

Activities. USAID supports activities which: (1) increase voters' and candidates' confidence in the freedom and fairness of elections and (2) strengthen the policy development and oversight capacity of elected bodies.

Indicators. Achievement of this objective will be measured by the following indicators: (1) number of calls on members of elected bodies by civil society organizations (CSOs) or NGOs increased; (2) quality of elections as assessed by election monitors increased; (3) number of election protests filed by candidates decreased; and (4) ratio of private to government bills introduced in Parliament increased.

Feasibility and Cost-effectiveness. There are two levels of elected government in Bangladesh: the national Parliament; and approximately 4,000 local councils, each of which represents about 15,000 voters. The institutions which need to be strengthened are in place, therefore, making achievement of this objective feasible.

Progress in 1993-1994. A system of voter identification cards and automated voter registration lists were piloted successfully by the Election Commission, leading to the government's decision to replicate the system nationwide. Elections for four cities and one parliamentary by-election were effectively monitored by local CSOs and were broadly recognized as free and fair. Five bills drafted by CSOs were debated in Parliament; two were passed.

Donor Coordination. USAID is the primary source of technical assistance to the Election Commission and Parliament. Norway has provided commodity assistance, particularly vehicles, to the Election Commission.

**Constraints.** Through the last half of 1994, USAID was unable to work effectively with Parliament because of the opposition's boycott of and, in early 1995, mass resignation from Parliament. This situation, however, increased the importance of elections. In response, USAID gave increased attention to strengthening the capacity of the Election Commission and building an indigenous capacity to monitor elections.

**Other Donor Resource Flows.**

In 1992, donors pledged \$2.1 billion and disbursed a total of \$1.9 billion, of which 44% was disbursed by bilateral organizations, 40% by multilateral financial institutions, 9% by United Nations agencies, and 2% by private development organizations. The United States is the fourth largest bilateral donor, providing approximately 5.23% of all donor assistance to Bangladesh in FY 1993. Other major donors include: the Asian Development Bank, the World Bank, the International Monetary Fund, the United Nations agencies, Japan, the United Kingdom, Canada, the Netherlands, Norway, Denmark, Sweden and Germany.

**BANGLADESH  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democra- cy	Providing Humanitar- ian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Increased Use of Modern Contraceptives by Eligible Couples		25,816,000				25,816,000
2. Increased use of high impact maternal and child health services		2,750,000				2,750,000
3. Enhanced Institutional, Programmatic, and Financial Sustainability of FP and MCH Programs		9,611,000				9,611,000
4. Diets of the Poor Nutritionally Enhanced Dev. Assistance P.L. 480 Title II	3,700,000				4,750,000	3,700,000 4,750,000
5. Agricultural productivity per hectare increased  Dev. Assistance P.L. 480 Title II	7,047,000				11,810,000	7,047,000 11,810,000
6. Real household income increased	6,550,000		1,147,000			7,697,000
7. Citizen Access to Public Policy Information Increased				1,940,000		1,940,000
8. Citizen Participation in Processes for Achieving Public Policies Increased				2,671,000		2,671,000
<b>Total</b>	<b>17,297,000</b>	<b>38,177,000</b>	<b>1,147,000</b>	<b>4,611,000</b>	<b>16,560,000</b>	<b>77,792,000</b>
Dev. Assistance	17,297,000	38,177,000	1,147,000	4,611,000	0	61,232,000
P.L. 480 Title II	0	0	0	0	16,560,000	16,560,000

USAID Mission Director: Richard M. Brown

## CAMBODIA

**FY 1996 Economic Support Fund Request . . . . . \$ 39,520,000**

The U.S. Government supported the election and installation of a democratic government in Cambodia, and remains committed to assisting Cambodia's peaceful evolution toward stability and democracy. Against great odds, the Royal Cambodian Government (RCG), a coalition of former political and military adversaries, is now functioning. The Khmer Rouge continue to dominate some regions and continue to fight to regain complete control of Cambodia. But the hundreds of defections from their ranks in recent months have fueled hopes that the Khmer Rouge will soon be a minor force within the country. Experts inside and outside government agree that the primary strength of the Khmer Rouge is the weakness of the RCG.

After the devastation wreaked on Cambodia by the Vietnam War, the Khmer Rouge, and harsh rule under the ensuing Vietnamese occupation, the U.S. and the rest of the international community set about the task of helping Cambodians rebuild their nation. Since Cambodia is still in the precarious early stages of its democratic evolution, USAID categorizes Cambodia as a "country in transition." U.S. support is critical to a stable Cambodia, regional stability, and therefore to U.S. foreign policy in the region. To help achieve this major foreign policy objective in the region, USAID has quickly created a program that has significantly advanced Cambodia's ongoing struggle to consolidate democratic governance.

### **The Development Challenge.**

Cambodia's people have suffered immensely during the past quarter century, and would lose the most from a failure of their fledgling democracy. With a per capita income of under \$200 per year, the people of Cambodia are among the poorest in the world. Life expectancy is less than 50 years, infant mortality is 117 per thousand, child mortality is 200 per thousand, and literacy is only about 35%. Only half of the population has access to health services. On the 1992 United Nations Development Program (UNDP) Human Development Index, Cambodia ranks 136th out of 160 countries. As one of the first and fastest-moving donors in Cambodia, USAID has supported and can continue to support Cambodia's struggle for democratic nationhood. The efficacy of USAID's program can greatly influence whether the RCG holds together or falls apart. A collapse of the RCG would threaten regional stability and the international community's two billion dollar investment, not to mention the lives of millions of innocent Cambodians.

As Cambodia has evolved toward democratic governance, USAID's program has evolved to meet new challenges. The program began as a rapid response program in support of the peace process and addressed primarily relief and rehabilitation. It has now moved to a more traditional bilateral program addressing rehabilitation and growth while still focusing on rapid delivery of services. The goal of USAID's program is to help the Cambodian people rebuild their nation.

USAID recognizes that significant humanitarian needs remain and that the RCG is not yet ready nor able to take on responsibility in most of these areas. Due to the systematic dismantling of the country's education system by the Khmer Rouge and the mass execution and/or emigration of Cambodia's educated classes, Cambodia's labor force--public and private sector alike--remains extremely weak. Therefore, USAID's assistance focuses on building Cambodian capacity and establishing an environment conducive to sustainable development. Short-term and on-the-job training for indigenous NGOs, key institutions, the private sector, and core RCG staff are key elements of USAID's program. To help Cambodia's economy move from a government controlled system to a free market system, USAID aims to stimulate participation and private sector growth in every program.

Democracy lacks strong roots in Cambodia, yet 90 percent of Cambodia's eligible voters risked their lives to vote in the May 1993 elections. If Cambodia's citizens are to keep their faith in democratic



governance, benefits of their courage must be visible nationwide in the short-term. To achieve this major objective of U.S. foreign policy in the region, USAID's strategic approach emphasizes achieving rapid, high-impact, and visible results. At the same time, USAID will nurture Cambodia's fledgling democracy by training Cambodians, improving transportation and helping create democratic institutions. Better educated, more prosperous, and freer citizens will be the foundation of Cambodia's future democratic society.

Common themes among all USAID activities are strengthening pluralism, human resource development and training, encouraging the development of indigenous NGOs, and increasing the participation of women.

#### **Strategic Objectives (SOs).**

#### **BUILDING DEMOCRACY (\$7,883,000).**

**SO 1. Strengthen pluralism and governance (\$12,960,000, of which \$7,883,000 is for Democracy, \$2,000,000 is for Protecting the Environment, \$1,847,500 is for Stabilizing Population Growth, \$1,229,500 is for Economic Growth).**

Cambodia has had a long history of being dominated by external forces and authoritarian regimes. The Paris Peace Accords of 1991, followed by the United Nations-sponsored elections in May 1993, were major events leading to installation of the present government. That government, however, remains weak: the parties are not well developed as institutions and divisions and political infighting have resulted in uncertainty on Cambodia's political, economic, and social fronts. Although the situation continues to improve, it remains fragile, thus undermining the prospects for sustained peace and economic growth. Nurturing pluralism, democratic values, and the institutions needed for a civil society are critical to maintaining Cambodia's hard-won peace. The USAID program, therefore, encourages pluralism and seeks to strengthen those democratic institutions that are critical to fighting Cambodia's historical tendencies toward authoritarianism, mismanagement, and corruption.

Activities. USAID's strategy is to show the advantages of democratic governance to broad segments of Cambodian society while buttressing the very institutions that make up that democracy. If Cambodians learn of the benefits of democratically elected government, the country will be less likely to falter back toward authoritarian rule. USAID provides technical assistance to strengthen the National Assembly, the courts, public interest organizations, and indigenous human rights groups. USAID is also providing technical assistance to improve the operations of key economic planning ministries and the legal system.

Related Activities. USAID plans to support economic growth, primary education, and family health and birth spacing activities which will provide tangible benefits to the population of Cambodia to underscore the benefits to be derived from a democratic government. In addition, planned environmental management activities will improve indigenous advocacy skills for environmental issues.

Indicators. Because of the dearth of statistics in Cambodia, the Cambodia program has been exempted during the strategy period (1995-1997) from reporting on impact indicators such as those required by USAID's internal performance measurement system. By 1997, sufficient baseline data should be available for comprehensive collection and analysis in future years. Nevertheless, USAID will closely monitor program implementation and informally assess program impact until that time. Some illustrative performance indicators USAID will track for this strategic objective include: (1) publication of the National Assembly's agenda and laws passed, (2) increased access and intervention by public interest NGOs, (3) regular payment of public employee salaries, (4) publication of budgets for government ministries, (5) more public defenders practicing freely in the courts, and (6) regular publication of court rulings, (6) enactment of an environmental conservation law and implementing regulations, and (7) the increase in number and activity of Cambodian environmental NGOs

**Feasibility and Cost-Effectiveness.** USAID is working in several areas to strengthen the capacity of public and private institutions to help the country's transition to a democratic society. In particular, assistance is targeted on the legal sector, the legislature, independent media, and human rights organizations. USAID also provides assistance to economic planning ministries, which the RCG views as particularly important. Although this assistance has been well received and well used, USAID and the RCG must now prioritize the myriad needs and then select areas where the U.S. Government can provide capable, sustained assistance over the medium term. Also, due to the RCG's inability to manage USAID funds, USAID must rely primarily on U.S. contractors and U.S. and indigenous non-governmental organizations (NGOs) and private voluntary organizations (PVOs) to implement its program. The linking of U.S. and indigenous groups achieves the low-cost transfer of sorely needed management skills to Cambodians. The effective functioning of an indigenous NGO community improves the probability that Cambodia's democratic institutions can be sustained over the long term. Indigenous NGOs are also venues where concerned Cambodian citizens can counsel their government and their fellow citizens on how a free and fair society should work.

**Progress in 1993-1994.** USAID has already taken significant steps to promote pluralism and to strengthen governance. Evolving from activities to support the peace process and the May 1993 elections, USAID has provided training for the major political parties (except the Khmer Rouge) and support to the new National Assembly. These programs, which are implemented through The Asia Foundation, the National Democratic Institute, the International Republican Institute and the Asia-American Free Labor Institute, have already produced tangible results. Achievements to date include increased transparency in courts, greater respect for due process, and the training of public defenders to protect the rights of indigent defendants. The program emphasizes the role of women and their empowerment in the democratic process.

USAID is one of the few donors with a specific objective to promote improved functioning of the National Assembly and public-interest NGOs in Cambodia. USAID brings in expertise from many countries so that Cambodians can choose for themselves which models of governance are most appropriate in the Cambodian context. The RCG and National Assembly have specifically requested additional U.S. assistance in promoting democratic processes and supporting good governance. Both institutions note that the United States is the preeminent donor in this area and that this assistance has been effective.

**Donor Coordination.** The Cambodian Government and the United Nations manage donor coordination through the International Committee on the Reconstruction of Cambodia (ICORC). At the sectoral level, the relevant RCG ministry coordinates assistance activities. Generally, informal working groups coordinate activities to ensure that donor efforts in each area complement, rather than duplicate, each other.

**Constraints.** With a focus largely on immediate concerns, the key constraints to achieving USAID's strategic objectives include an extremely weak government structure, chronic budgetary deficits, an urgent need for civil service reform, competing interests of political factions, a chronic lack of competent counterparts, lack of effective key institutions, and corruption.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$12,045,500).**

### **SO 2. Support broad-based economic growth (\$10,816,000 for Economic Growth)**

Cambodia's tragic experiences of the last several decades have rendered its economy a shambles and its people among the poorest in the world. Its physical infrastructure has been destroyed and its human resources have been squandered. USAID's objective is to strengthen the capacity of government institutions to manage Cambodia's transition to a free-market economy and reintegration into the global economy. In particular, USAID aims to improve the foundation for sustained economic growth in the following areas: the rehabilitation of national highways and rural roads, the reduction of

land mines, the management of fiscal and monetary policy, the provision of basic services, and the upgrading of professional, management, and technical skills.

Activities. USAID's efforts to rebuild Cambodia's economy are focused in three major areas: rehabilitation of physical infrastructure, strengthening of public institutions to support economic growth, and improvement of the human resource base. USAID is already rebuilding a critical transportation artery between the capital city and Sihanoukville, the country's only deep-water ocean port; it will also rebuild farm-to-market roads in the northwest of the country. USAID will continue to provide technical assistance to key economic planning ministries on how to improve their operations. USAID also will help the new Ministry of Environment improve its ability to manage Cambodia's considerable natural resources in an ecologically and economically sustainable fashion. By training all of Cambodia's 46,000 primary school teachers, USAID will improve the quality of primary education, thereby preparing Cambodia's young for the emerging job market.

Related Activities. USAID provides support through PVOs for demining and microenterprise development. Through support of democratic initiatives, USAID is helping to strengthen the legal framework that is essential for economic growth. Finally, USAID's assistance in primary education will improve the quality of primary education.

Indicators. As stated under Strategic Objective 1, the Cambodia program is exempt from USAID's internal performance measurement system during the strategy period because of the dearth of statistics in Cambodia. Nevertheless, USAID will closely monitor program implementation and informally assess program impact. Some illustrative performance indicators USAID will track for this strategic objective include: (1) productive interactions by economic ministries of the Cambodian government with outside contacts including bilateral and multilateral donors, foreign investors, and financial institutions, (2) passage of commercial laws and implementing regulations, and (3) increased tax collection.

Feasibility and Cost-Effectiveness. Realistically, a nation cannot be rebuilt in ten years, nor can the key institutions and human capabilities necessary to manage that process be established in half that time. Nevertheless, USAID can help lay the groundwork for the most important of tasks, the most fundamental of priorities, and the development of the most critical capabilities. Over the next three years, the Cambodian government faces many challenges. The RCG must consolidate its previous gains, produce immediate and visible results for a hopeful population to establish its legitimacy, and strengthen its core capabilities. These steps preface the eventual shift from chaos and despair to broadly participatory, sustainable development.

Progress in 1993-1994. USAID has just begun rebuilding the main highway between Phnom Penh and Sihanoukville, the country's only deep-water port. The work should be completed in 1996. In addition, USAID has worked with many PVOs to conduct skills training programs in urban areas. As a result, Cambodians are developing entrepreneurial skills and opening or expanding small enterprises. USAID is providing assistance to Cambodia's National Assembly and to the legal, regulatory and judicial systems to build strong bases for investment, dispute resolution, and property rights. Already the courts are beginning to function in a more transparent, predictable manner and the presidents of the courts have requested an expanded training and court reform program, which will begin in 1995. The National Assembly has enacted commercial laws which are beginning to lay the foundation for foreign investment and expanded trade. Finally, USAID has just begun to provide technical assistance in macroeconomic planning to the new government. This technical assistance already has resulted in the drafting of strategy papers that will guide the government in its management of international donor resources.

Donor Coordination. Overall donor coordination has been performed through the ICORC process. At the sectoral level, the relevant RCG ministry coordinates assistance activities. Generally, informal

working groups coordinate activities to ensure that donor efforts in each area complement, rather than duplicate, each other.

**Constraints.** Several factors limit Cambodia's capacity to achieve and sustain broad-based economic growth. These include, but are not limited to, the lack of a fully market-oriented policy framework, an experienced private sector, a trained labor force, and even the most basic physical infrastructure. The isolation of much of Cambodia's population (85% rural) threatens to limit the equity of economic growth. Also, the constant mortal threats posed by the 8-10 million land mines, unexploded ordnance and renewed Khmer Rouge insurgency exact a heavy physical and psychological toll on an already war-weary people.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$15,159,500).**

**SO 3. Meet targeted basic human needs (\$15,744,000, of which \$15,159,500 is for Humanitarian Assistance and \$584,500 is for Stabilizing Population Growth)**

The RCG has been, and remains, barely able to provide basic social services to its citizens. Weak government structures, poor security, and insufficient financial and human resources inhibit or altogether prevent the Cambodian government from providing these services.

The problems arising out of weak government structures are evident throughout the countryside. Inadequate health and sanitation services mean that the entire population is at risk from water-borne diseases, tuberculosis and other respiratory diseases. Moreover, lack of access to family planning services has led to a high number of unwanted and high-risk pregnancies (resulting in a high rate of abortion-related deaths), a high maternal death rate, and poor child health. The education system remains weak, condemning the 1.6 million primary school children to schools that leave them illiterate and unable to do basic calculations.

USAID's objective is to strengthen the capacity of public organizations and NGOs to provide sustainable family services. In particular, USAID aims to improve capacity in the following areas: the delivery of services by NGOs, the management of the health and population sector by the government, the knowledge and use of safe family planning and maternal and child health methods by the general population, and the education of Cambodia's children by improving the skills of primary school teachers.

**Activities.** Direct assistance to rural development activities is being provided through PVOs to support a variety of interventions throughout Cambodia, including water and sanitation, hospital rehabilitation, prosthetics, maternal and child health, health education, credit, women's skill development, community development, vocational training for the disabled, and human rights training. USAID's assistance in primary education will train 46,000 primary school teachers.

**Related Activities.** USAID will support environmental management activities to improve environmental advocacy skills. More effective environmental advocates can demand improved management of the environment, which will lead to an improved quality of life for all.

**Indicators.** As stated under Strategic Objective 1, the Cambodia program is exempt during the strategy period from reporting USAID's internal performance measurement impact indicators because of the dearth of statistics in Cambodia. Nevertheless, USAID will closely monitor program implementation and informally assess program impact. Some illustrative performance indicators USAID will track for this strategic objective include: (1) adequate food supplies in markets, (2) improved condition of rural roads, (3) increase in number of textbooks available to primary school students, (4) improved access to health services, sanitation and potable water by vulnerable groups, (5) increased access to pre-natal care, (6) increased use of contraceptives, (7) increase in the number of hectares demined, (8) increased number and improved repayment rates of small loans to entrepreneurs and rural dwellers.

Feasibility and Cost-Effectiveness. The past two decades of violence and political turmoil have not only decimated Cambodia's social service systems, but have severely hampered Cambodia's ability to provide these services anytime soon without external assistance. The majority of educated Cambodians were either killed or driven out of their country. Although the Vietnamese-backed government attempted to reestablish some social services, such as the primary education system, its efforts failed. Quality of instruction is poor, high repeat and dropout rates are the norm, and young Cambodians are left ill-prepared to enter the work force. Yet, there have been improvements, in education as well as a number of other sectors (health, water, etc.) where international and indigenous PVOs and NGOs have been active in Cambodia. Given USAID's limited staff, it relies heavily upon U.S. and indigenous PVOs and NGOs to implement its program. It is a mechanism that has proven to be extremely effective (in terms of impact, geographic coverage, and cost-effectiveness) in transferring much-needed skills to Cambodians working to rebuild their country.

Progress in 1993-1994. USAID has worked with numerous U.S. and international PVOs and international organizations in the following activities: providing prosthetics to war victims and those injured by land mines, maternal and child health through immunization, health education and potable water, and family planning and human immuno-deficiency virus and acquired immune deficiency syndrome prevention. Quality services are being provided on a nearly nationwide basis, and NGOs are training RCG counterparts to improve management, coordination and delivery of services.

Donor Coordination. Overall donor coordination has been performed through the ICORC process. At the sectoral level, the relevant RCG ministry coordinates assistance activities. Generally, informal working groups coordinate activities to ensure that donor efforts in each area complement, rather than duplicate, each other. Donors have established emergency assistance programs which, through coordination and cooperation, are providing relief on a nearly national scale.

Constraints. The single largest constraint to meeting this objective is the continuing security problem that plagues rural programs. While NGOs have established a sound network on which national programs can be based, persistent security problems regularly disrupt service delivery and force the displacement of staff. In addition, the lack of skilled Cambodians has required a significant expatriate presence both for management and service delivery. Low government wages and lack of competent RCG counterparts also impede coordination of activities among service providers.

This USAID objective addresses not only humanitarian assistance needs, but also economic growth, population growth, and democracy goals.

#### **Other Donor Resource Flows**

From 1992 to 1994, the United States was the second largest bilateral donor (22% of bilateral commitments) and the second largest overall donor (9.14% of overall commitments). Other major donors include Japan, France, Italy, Australia, Asian Development Bank, World Bank, International Monetary Fund, United Nations Development Program, and the European Community.

**CAMBODIA  
FY 1996 PROGRAM SUMMARY**

Strategic Objective	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>1. Strengthening Pluralism and Governance</b>	1,229,500	1,847,500	2,000,000	7,883,000	0	12,960,000
<b>2. Supporting Broad-based Economic Growth</b>	10,816,000	0	0	0	0	10,816,000
<b>3. Meeting Basic Human Needs</b>	0	584,500	0	0	15,159,500	15,744,000
<b>Total (ESF)</b>	<b>12,045,500</b>	<b>2,432,000</b>	<b>2,000,000</b>	<b>7,883,000</b>	<b>15,159,500</b>	<b>39,520,000</b>

USAID Representative: Joseph Goodwin

## EGYPT

**FY 1996 Economic Support Fund Request: . . . . . \$815,000,000**

Following the Camp David Accords, and the initiation of our assistance program in 1975, Egypt has been a strong ally of the United States and a moderating force in the Middle East. Egypt was a vital ally in the Coalition during the Gulf War and, more recently, has played a pivotal role in supporting an overall settlement between Israel, its neighbors and the PLO. U.S. assistance has permitted Egypt to concentrate on and achieve substantial progress in economic and social development, a stunning reversal from the debilitating state of war that it pursued for more than 30 years.

### **The Development Challenge.**

The Egyptian economy is in transition from 40 years of state intervention in resource allocation to a market-oriented environment. Macroeconomic management has improved during the past three years; however, economic growth remains slow. More efforts are needed to accelerate privatization, develop the financial sector, reduce tariffs, and create a more supportive environment for private investment and export growth. Egypt has increased production in numerous agricultural crops, but continues to face constraints in areas of agricultural policy, technology, institutions and water use. The population growth rate has declined from 2.9% to 2.2% over the 1984-1992 period but remains high, contributing to slower than desirable economic growth. The under-five child mortality ratio (24.8 per 1,000, 1991) has progressively improved, but remains high. Excellent progress in child spacing has contributed to decreases in maternal mortality, but more effort is required to reduce the 174/100,000 (1992-1993) ratio. Serious environmental degradation of air and water resources constrains the country's development and endangers the health and livelihood of its people. Access to telecommunications, electricity and treated water has greatly increased over the past decade. Yet improved cost-recovery measures in these sectors are needed to ensure sustainability of the infrastructure base. Political reforms have not kept pace with economic reforms. Strengthened political, civil, and government institutions are important for the country's evolution to a sustainable democracy. The new Gore/Mubarak Partnership for Economic Growth initiative, which encourages broader U.S. public and private sector involvement in Egypt's development, promises fresh focus on impediments to sustainable development.

### **Strategic Objectives (SOs).**

USAID's multi-faceted program strategy to enhance Egypt's role as a model of stability, democracy, free markets and prosperity in the region has eight (8) strategic objectives complemented by a number of activities, such as training, university linkages and female education, which cut across strategic objective boundaries.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$652,400,000).**

#### **SO 1. Improved macro-economic performance (\$205,000,000).**

To create a macroeconomic environment which encourages broad-based, sustainable development, Egypt must continue its transition from a centrally planned to a more open, market-oriented economy. To encourage this transition, USAID has developed a macroeconomic policy reform program which concentrates on the fiscal, financial, and trade sectors to promote efficient allocation decisions, savings and external resource inflows. This program includes an emphasis upon privatization of state-owned industries. In addition, USAID is supporting reforms of Egypt's tax administration system, which will improve the country's internal sources of revenue. To build capacity for self-sustaining growth, reform efforts include USAID's encouragement of market pricing and cost recovery in public utilities, health care, and irrigation.

**Activities.** Encouraging Egypt's transition to a competitive, private sector economy with cash transfers, in return for specific reforms in the financial, fiscal, trade and enterprise sectors, continues as a key activity supporting macroeconomic change. Technical assistance is being provided to help the Government of Egypt (GOE) develop, carry out, monitor and evaluate its reform program.

**Indicators.** USAID indicators for measuring progress toward achieving this objective are: (1) increase investment as a percentage of gross domestic product (GDP) from 20% in 1991 to 25% in 1997, (2) improve savings as a percentage of GDP from 7% in 1992 to 13% in 1997, and (3) reduce the fiscal deficit as a percentage of GDP from 20.2% in 1992 to 3.5% in 1997.

**Feasibility and Cost-effectiveness.** In early 1990, Egypt faced a major crisis because of its excessive dependence on external financing from Suez Canal tolls, expatriate remittances, oil exports, tourism and bilateral aid, all of which decreased in the mid-1980s at a time when the price of oil also fell. In response, the government initiated expansionary fiscal policies to maintain public sector outlays. These actions resulted in a worsening balance-of-payments, increased foreign debt, and the depletion of international reserves. By 1990, Egypt faced a major crisis with a foreign debt of \$50 billion and no capacity to repay it. New opportunities for fundamental economic reform came during the Gulf War which provided Egypt with substantial debt relief and additional economic assistance. After signing agreements with the International Monetary Fund (IMF) and the World Bank in 1991, Egypt embarked on a serious economic reform effort. From USAID's and other donors' perspective, the reforms targeted at the impediments to long-term growth are the only feasible way for Egypt to avoid another economic crisis.

**Progress in 1993-1994.** While progress in privatization and public services cost recovery has been less than expected, many positive changes have occurred in other areas. During 1993, the GOE met 19 out of 20 reform actions promoted by USAID's sector reform program. Over 1991-93, the GOE unified the exchange rates, reduced tariffs, and lifted interest rate ceilings. During this period, the budget deficit fell from 20% to 4.7% of GDP and inflation dropped from 25% to 10%. The GOE continues to show fiscal restraint. In lieu of the average annual increase of 22% that occurred from 1987-88 to 1992-93, Egypt held the budget to an 8% increase for the 1994-95 cycle. The budget deficit is now below 3% of GDP and inflation is in the 7%-10% range. International reserves have risen to \$16 billion.

**Donor Coordination.** The IMF's extended arrangement with the GOE has not been drawn down for the last year, in part because Egypt's level of international reserves is adequate and because a successful review of the program is as yet incomplete. The final \$4 billion of a \$10 billion Paris Club debt relief package has been delayed since July 1994, pending IMF/GOE agreement over additional reform measures. The World Bank is providing technical assistance for a reform monitoring program.

**Constraints.** The GOE, attempting to balance economic imperatives against political liabilities, has adopted a gradual approach to major changes. With political stability threatened by extremists who have targeted both the government and the tourist trade, the GOE continues to balance pressures from external donors and its citizens about the pace of change. The primary constraint to policy reform is the GOE's caution in balancing the need for economic reform against political factors.

## **SO 2. Increased private investment and trade (\$237,600,000).**

This strategic objective sets the framework for basic institutional changes needed for a free-market economy, private sector investment and growth. Egypt remains dominated by public sector companies which contribute little to economic growth. USAID must continue to work with the Egyptian Government on regulations, remaining price controls and policy constraints, which handicap the development of the private sector and inhibit growth. USAID assistance must take into account the low purchasing power of most Egyptians, which means that gains in output, job creation and earnings must come primarily from exports.



**Activities.** USAID is currently addressing second-generation structural adjustment issues, moving from macroeconomic to sectoral or industry-specific initiatives. USAID is continuing support for the Private Sector Commodity Import Program (CIP); expanding support for small and micro-enterprise development; pressing for greater privatization efforts; and supporting a non-profit Egyptian research institution to analyze policies and strategies to promote free-market principles and structures. In addition, USAID will initiate a new export development activity.

**Indicators.** USAID indicators for measuring progress toward achieving this objective are: (1) increase total private non-petroleum exports from \$953 million in 1992 to \$1,550 million in 1997 and (2) increase new investment in private sector companies from \$914 million in 1992 to \$2,940 million in 1997.

**Feasibility and Cost-effectiveness.** The GOE's Second and Third Development Plans (1988-92 and 1992-96) include ambitious objectives for private sector-led growth. Progress has been slow because structural imbalances in the economy are still profound and regulatory impediments and rigidities are pervasive. USAID is using U.S. expertise as a catalyst for change. Private sector firms, as well as those transitioning from state to private ownership, are tapping into experience from the International Executive Service Corps to improve their technical and managerial performance. The Commodity Import Program is helping establish linkages with U.S. suppliers for expanding production needs. Policy measures are being designed and implemented to remove legal and bureaucratic restrictions to the creation of productive and competitive businesses. These efforts are assisting greater small- and micro-enterprise development, facilitating entrepreneurs' access to formal credit and technical assistance and helping to expand economic output and generate employment.

**Progress in 1993-1994.** Non-petroleum exports increased from \$953 million in 1992 to \$1,050 million in 1993, indicating improved policies and a more rational exchange rate. Small- and micro-enterprise (SME) development continued to do well. From 600 borrowers in 1990, the program expanded to 15,900 in 1993, with less than a 2% default rate overall. Two of the SME lending institutions will reach operational break-even this year, after only two years of lending. By its second year of USAID support, the Trade Development Center facilitated target exports for European and Middle East markets, valued at \$30 million, exceeding its goal by 20%. Privatization units have been established in six state holding companies to expedite actual transactions. In 1994, the government privatized nine state-owned enterprises. From the inception of the private sector CIP program (1986-94), 830 Egyptian private importers have bought goods from 1,400 U.S. exporters.

**Donor Coordination.** The World Bank is a key partner. Close collaboration exists for banking reforms, revision of business laws, convening of the first Private Sector Development Conference, and the formulation of a comprehensive export development strategy.

**Constraints.** Sales of state enterprises as a measure of investment in private sector companies have been slow due to the politically sensitive issues of heavy and complex indebtedness, land titles, and redundant labor. Although private exports and new investments have increased modestly, more dramatic performance in these areas will be necessary for sustainable growth. Legal and bureaucratic restrictions continue to hamper Egyptian and foreign private businesses, handicapping expansion and the potential for sustainability. Other challenges include a relatively inactive stock exchange, a limited range of financial instruments that have not been conducive to new capital formation, and the inadequacy of institutions to meet informational, analytical and advocacy needs of the nascent private sector.

### **SO 3. Increased production, productivity, and incomes in the agricultural sector (\$89,200,000).**

The agricultural sector accounts for approximately 18% of the country's GDP, 36% of overall employment, and 22% of commodity exports. Half of the Egyptian population live in rural areas where

agricultural activities predominate. Agricultural-related industry, including the production of agricultural inputs and the processing and marketing of commodities, accounts for another 20% of GDP and a substantial portion of the work force. Incomes in the agricultural sector lag seriously behind those in other sectors. Due to state intervention, sector growth during the early to mid-1980s was very poor, with value of production growing at less than 1% per year. The public sector's role in the production and supply of agricultural inputs, combined with inappropriate pricing and marketing policies, contributed to this poor performance. For economic growth to be realized in Egypt, serious progress needs to occur in addressing institutional and technological constraints that face the agricultural sector. A limited water supply with competing demands for its use lies at the core of any agricultural solution.

Activities. Four activities support this objective. The first includes: policy and institutional reform, including market-oriented pricing of products and inputs; an increased role for the private sector in processing, marketing and distribution of selected products and inputs; increased efficiency of public investments in land, water and research; and an improved food security program. The second activity involves enhancing the productivity of selected cereal and horticultural crops and through development and use of appropriate technology improving marketing and increasing exports of these crops. The third supports improvements in the use and management of water and land resources for agriculture. A fourth, to support agribusiness development, is to be developed in FY 1996.

Related Activities. Other USAID activities supporting this objective include linkages with the university community focused on agricultural sector development problems, as well as related technical and feasibility studies, training and PVO strengthening.

Indicators. The indicators for measuring progress toward achieving this objective based on 23 major crops are: (1) increase agricultural production (Laspeyres index) from 100 in 1986-88 to 127 in 1997; (2) maintain the annual growth rate in total production at 2.3% over the 1984-97 period; (3) increase the gross output value per hectare under production from \$180 in 1986-88 to \$210 in 1997; (4) increase the gross output value per agricultural worker from \$165 in 1986-88 to \$185 in 1997; and (5) increase the real value of total gross farm revenue from \$1,019 million in 1986-88 to \$1,431 million in 1997.

Feasibility and Cost-effectiveness. USAID's strategy is based on the premise that the agricultural sector has tremendous growth potential both in terms of productivity and in levels of production. Egypt possesses exceptional agricultural resources, including a controlled irrigation system, fertile soils, temperate climate, absence of recurring natural disasters, and a central regional location. Furthermore, Egypt's successful reforms to date to liberalize product and input markets and to increase the share of private sector participation augur well for future reform in the sector.

Progress in 1993-1994. USAID assistance in policy and institutional reform, research and water resource improvements has contributed to advances in agricultural production, productivity and income from 23 selected major crops. The production index registered an increase from 115 in 1992 to an estimated 117 in 1993, with notable increases in metric tons per hectare in cotton (7%) and maize (10%). Agricultural production grew at an estimated 2.5%, above the 2.3% target. Land and labor productivity and farm revenue also rose by more than 1%. Liberalized product and input markets and the increased private sector share of agricultural processing and marketing contributed to these results. For example, by 1993 the government had lifted cropping, pricing and other restrictions on all but one of 14 controlled crops. The private sector share of fertilizer distribution rose from 0% to 90% over the 1990-93 period. Their share of rice and wheat milling likewise increased. Further improvements in irrigation structures and systems have given farmers greater control over water delivery and increased water-use efficiency.

Donor Coordination. USAID collaborates with the IMF and the World Bank on policy reforms in pricing, marketing, privatization, efficiency and cost recovery in irrigation, and subsidy reduction. Other complementary donor activities include: World Bank (technology transfer and irrigation); Germany

(credit and seed sector liberalization and irrigation); Canada, European Union and Japan (irrigation); and the Netherlands and the United Nation's Food and Agricultural Organization (research and drainage).

**Constraints.** Water is a limiting factor to the considerable growth potential of Egyptian agriculture and continued investments to improve water use efficiency are essential. Because of water and land limitations, Egypt's agriculture is already technology-intensive, but more focused intensity is a must. Liberalizing the cotton sub-sector, a major potential factor in agricultural sector growth, is slow because of cross-cutting issues involving several ministries and internal politics.

#### **SO 4. Improved Maternal and Child Health (\$35,600,000).**

Despite advances in child survival, children in Egypt continue to die from preventable causes, such as acute respiratory infections, diarrhea and neonatal causes related to poor prenatal care and unsafe delivery. The maternal mortality ratio also remains high. Other communicable diseases still afflict the population in large numbers. As many as 25 million Egyptians are at risk of contracting schistosomiasis while 9 million, many of whom are children, are already infected.

**Indicators.** USAID indicators for measuring progress toward achieving this objective are: (1) reduce the infant mortality rate from 61.5 per thousand live births in 1990 to 37 in 1997; (2) reduce the child mortality rate from 24.8 per thousand live births in 1991 to 17 in 1997; and (3) reduce the maternal mortality ratio from 174 per 100,000 live births in 1992 to 130 in 1997.

**Activities.** A new maternal and child health activity will give priority to strengthening the skills of health care providers to improve the quality of health care. The public sector relationship will focus more on the regulatory side of health services to ensure that standards are set and followed, and a system for continuing education is institutionalized. In addition, a new health policy program will be launched.

**Feasibility and Cost-effectiveness.** Egypt, in partnership with international donors such as USAID, UNICEF and the World Health Organization, has implemented essential public health programs that have resulted in significant health improvements. The achievements, particularly during the last decade, have been outstanding. Cases of neonatal tetanus, poliomyelitis and measles have decreased due to the effective national vaccination program. Diarrheal deaths, once the number one killer of infants and children in Egypt, have been brought under control through oral rehydration treatment. Thousands of deaths and disabilities in infants are being avoided through improved newborn care and better treatment for acute respiratory infection. Training of doctors, nurses and traditional birth attendants in family planning and prenatal care are helping women avert death and serious handicaps. Evaluations have shown that USAID-supported health and family planning projects are directly contributing to these health improvements. In spite of the many successes, however, Egypt still has unacceptably high death and illness rates in its population. For example, the infant mortality rate, which stands at 61.1 deaths per 1,000 live births, is still seven times higher than in the United States. Cooperation in this sector must continue. To promote sustainability, model cost-recovery systems are being developed for public hospitals to generate more revenue to support preventive care and free up Ministry of Health resources for cost-effective maternal and child health programs. Diversifying the funding for personal health care through cost recovery and health insurance as well as promoting private sector initiatives are important approaches to improve the quality of care.

**Progress in 1993-1994.** Long-term trends for child survival are positive. Infant mortality per thousand live births declined from a rate of 129.2 in 1975 to 61.5 in 1990. Child mortality per thousand declined from a rate of 91 in 1975 to 24.8 in 1991. Child immunization coverage rates of approximately 90% have been sustained. A goal to eradicate polio by 1995-96 is on the way to being met: reported suspected cases of polio dropped from 671 cases in 1992 to 196 in 1993. The acute respiratory infection control program has been extended nationwide.

Donor Coordination. United Nations Children's Fund (UNICEF) and the World Health Organization (WHO) programs complement USAID's. UNICEF provides technical assistance, commodities and operational expenses for child survival activities, including the expanded program of immunizations, the acute respiratory program, and breastfeeding promotion. WHO is a key player in health policy. USAID, the African Development Bank and the World Bank have complementary programs in schistosomiasis control.

Constraints. Principal constraints to improved maternal and child health are inappropriate government policies which favor hospitals and the curative sector over preventive services. A major challenge in achieving the strategic objective is related to the Ministry of Health (MOH) policy making and planning process and GOE budget allocations for preventive/public health care. Despite an extensive network of health facilities throughout Egypt, Egypt's maternal mortality ratio is as high as many Sub-Saharan African countries with far less infrastructure.

## **STABILIZING POPULATION GROWTH (\$10,000,000).**

### **SO 5. Reduced Fertility (\$10,000,000).**

The Egyptian family planning program, with substantial USAID support, has successfully reduced the total fertility rate from 5.2 (the number of children the average woman would have) in 1980 to 3.9 in 1992. The population growth rate has declined from 2.9% in 1984 to 2.2% in 1992. Such a growth rate, despite the impressive decline, has obvious developmental consequences. The government is currently hard pressed to expand social services and create employment to absorb the growing labor force. Already one of the most densely populated countries, Egypt is growing increasingly urbanized. As a result, population density in urban Egypt surpasses that of Bangladesh, straining already overcrowded conditions with poor sanitary conditions. To maintain current gains, to reduce critical budgetary pressures on its social services, and to assure reproductive choice to all women, Egypt must continue to strengthen its existing programs.

Activities. The USAID's continuing multi-component population program assists the GOE and the private sector provide accessible, appropriate and high-quality information, services and commodities for population and family planning.

Related Activities. Recognizing the negative impact of inadequate female literacy on economic growth, including fertility targets, USAID will build on a pilot effort in female education which will begin in 1995. In Egypt, female illiteracy is 66% (compared with 37% for men) and increasing because girls' attendance lags behind boys'.

Indicators. USAID indicators for measuring progress toward achieving this objective are: (1) decrease total fertility rate from 3.9 in 1992 to 3.5 in 1997 and (2) reduce the crude birth rate from 29.2 in 1992 to 27.0 in 1997.

Feasibility and Cost-effectiveness. Over the long term, the challenge is to build sustainable capacity, systems and policies for the delivery of family planning services. The expectation that further improvements in the prevalence and quality of family planning use in Egypt is feasible is based on substantial "unmet need." Studies indicate that one in five currently married Egyptian women has unmet need. USAID can bring its considerable expertise to bear in assisting the GOE in training service providers, developing effective media messages, increasing the variety of available contraceptives, and improving management in the implementing agencies.

Progress in 1993-1994. The contraceptive prevalence rate increased from 38% in 1988 to 47% in 1992 and unpublished results of a 1993 national survey indicate it has risen further to almost 50%. The extended use failure rate has fallen from 13% to 10% between 1988 and 1992. In addition, contraceptive services and supplies have become widely available in the public and private sectors and

the quality of services is improving.

Donor Coordination. USAID is the major donor in this sector. Other donors include the United Nations Fund for Population Assistance (UNFPA), the International Planned Parenthood Federation, and Japan. USAID is working closely with interested donors (the Japanese, the World Bank, the Dutch, Germans, and European Community) to assist in the identification of reasonable opportunities for assistance which will contribute to the overall quality and sustainability of the program.

Constraints. Weak institutions, inadequate access to a variety of contraceptive methods (including advanced methods such as NORPLANT), weak counseling skills of providers in the public and private sectors, and restrictive contraceptive pricing policies which prevent wide distribution through private sector channels represent the principal constraints being addressed by USAID.

## **PROTECTING THE ENVIRONMENT (\$134,600,000).**

### **SO 6. Increased access to, and efficiency and reliability of public utilities in urban target areas (\$162,000,000).**

Egypt's needs for massive investments in the water, wastewater, power, and telecommunications sectors continue due to a lack of basic infrastructure and high population growth. These investments are crucial not only to provide basic services to a growing population, but also to create the infrastructure which will support sustained economic growth. Despite USAID infrastructure investments which have affected one out of every three Egyptians, 25% of Egyptians still have no source of treated water, and 60% have no access to sewerage collection systems. Existing infrastructure often does not operate at desirable efficiencies, resulting in water leaks and wastage that accounts for 40%-50% of production. Poor or non-existent sewage systems still affect certain parts of Cairo and Alexandria. In addition, the GOE is operating and maintaining existing systems without adequate cost recovery and trained personnel. Infrastructure entities are chronically under-funded, suffer from limited autonomy, and operate inefficiently with a large and poorly managed staff.

Indicators. The indicators for measuring progress toward achieving this objective are: (1) increase the population connected to improved sewerage systems in Cairo by an additional 1.6 million by 1997; (2) increase the population served by improved sewage collection and treatment in Cairo, Alexandria and the Canal Cities from 2.4 million in 1992 to 8.0 million in 1997; (3) increase the population with access to improved water supply (Cairo, Minya, Fayoum, Beni Suef) by an additional 4.35 million by 1997; (4) increase telephone density in Cairo from 10.2/100 people in 1992 to 14.4/100 people in 1997 and from 10.7/100 people in 1992 to 15/100 people in 1997 in Alexandria; and (5) reduce national electrical energy losses from 15.5% in 1989-90 to 13.2% in 1996-97.

Activities. Based on policy reforms made by the Egyptian Electric Authority, USAID will continue to finance a regional control center and the ongoing rehabilitation and upgrading of laboratory facilities, with associated engineering services. A new effort to rehabilitate and expand electric distribution systems in selected parts of Egypt will begin in FY 1996. Ongoing efforts to expand and rehabilitate the Egyptian telephone system and the on-line capability of the national network operations center will continue. Improvements in wastewater collection, conveyance, and treatment plant capacity will be financed for Cairo, and plant expansion and disposal improvements will be financed for Alexandria. USAID funding for these improvements is conditioned upon GOE sector policy reforms.

Feasibility and Cost-effectiveness. Infrastructure provides the essential foundation for enhanced productivity and market efficiencies, while also improving the basic health conditions of many Egyptians. In the water and wastewater sector, USAID will continue its focus on urban areas

where the impact is greatest. USAID will focus on the policy reforms which are essential to long-term sustainability: the creation of autonomous utilities, provision of adequate operation and maintenance funds based on realistic tariffs and fees, and reforms of personnel and management systems. In the power sector, the emphasis is upon creating a better financed and managed utility and an efficient transmission and distribution system with rehabilitated generating facilities. Such a system will not only provide the power needed for continued economic growth but will also have a positive impact on the environment. USAID's continued support of the telecommunications sector is instrumental in providing this critical component of economic infrastructure.

Progress in 1993-1994. Population served by improved sewerage collection and treatment was 5 million rather than the 2.1 million planned, while the population added to the sewerage collection in Cairo was 800,000 rather than the 700,000 planned. Targets were exceeded because two sewage treatment plants came on line earlier than expected. Access to improved water supply was provided to 350,000 during the year. Electrical energy losses decreased from 15.5% in 1989-90 to 14.1% in 1990-91, while telephone density in Cairo improved from 10.2 lines per 100 people in 1992 to 11.3 lines per 100 in 1993.

Constraints. The only real obstacle to meeting the future targets will be the GOE's ability to implement reforms upon which USAID has conditioned investments. USAID and its counterparts have a proven ability to successfully construct wastewater, power, and industrial systems. One reform which continues at a slow pace is the GOE progress towards the creation of autonomous wastewater utilities. Presidential decrees have been signed, putting in motion the process for autonomous entities in Cairo and Alexandria. However, cost-recovery efforts, which would result in increased tariffs and fees sufficient to cover operation and maintenance costs, lag behind expected progress, and few if any of the needed reforms of personnel and management systems have been implemented.

In addition to addressing the environment, this strategic objective will address broad-based economic growth through funding investments in the telecommunication sector.

#### **SO 7. Adoption of water and air protection practices (\$32,600,000).**

Water and urban air pollution are the major environmental problems which jeopardize both Egypt's economic development and its citizens' health. Water pollution caused by agricultural chemicals, industrial wastes, raw sewage and silt from runoff has seriously contaminated water intended for human consumption, irrigation and other uses. Egypt's dependence upon the Nile River as the main source of its water exacerbates this critical problem. Agricultural lands are seriously affected by polluted agricultural drains, salinity and waterlogging. Human health also is adversely affected. Alexandria's highly polluted Lake Maryut provides a graphic example of the harmful impact of untreated sewage and agricultural runoff upon both fish and inhabitants in the area. Fish take has declined 90% in these lakes, and life expectancy of lakeside residents is significantly less than the rest of the country. Urban air quality is seriously degraded as a result of industrial emissions, vehicles, construction, garbage burning, and natural dust from surrounding deserts. Levels of suspended particulate and lead pollution in Cairo are the highest among the world's megacities and cause an estimated 10,000 to 25,000 additional deaths per year. Furthermore, children reared in Cairo are exposed to higher than average lead pollution.

Indicators. The indicators for measuring progress toward achieving this objective are: (1) Avert metric tons of air pollutants per year (MT/Y) over the period 1992 to 1997 from zero to the following amounts: nitrous oxides (NOx) 9,500 MT/Y; particulates 21,300 MT/Y; sulfur oxides (SOx) 390,000 MT/Y; and carbon dioxide (CO<sub>2</sub>) 10,000,000 MT/Y; (2) increase metric tons per year of biological oxygen demand (BOD) and total suspended solids (TSS) pollutants averted from the Nile and Lake Maryut from 43,510 MT/Y in 1993 to 174,550 MT/Y in 1997; and (3) increase percent removal of BOD and TSS from USAID-funded facilities in Cairo and Alexandria

from 0% in 1992 to 80% in 1997. [Note: averting pollutants is achieved by either directly reducing pollutant emissions in pre-existing facilities or by introducing clean technologies or fuels in new facilities].

**Activities.** USAID activities are designed primarily to address policy, institutional and technical constraints. In policy areas, USAID is promoting the removal of energy, fertilizer, and pesticide subsidies which in turn reduces the wasteful overuse of these polluting substances. Supported largely by infrastructure activities, direct interventions focus on averting both air and water pollution. Wastewater construction and rehabilitation activities are designed to maintain or improve water quality. Power activities provide more efficient electrical generation and distribution systems. Industrial energy and environment activities reduce the discharge of industrial pollutants and promote energy conservation. A new Cairo air quality activity, beginning in 1995 will assist GOE efforts to reduce lead in gasoline, institute a vehicle emissions testing and certification program, and establish incentives to reduce industrial emissions.

**Feasibility and Cost-effectiveness.** USAID continues to build on previous success. Earlier projects in wastewater, energy and agriculture have positively impacted Egypt's environment. Under the current environmental strategy, USAID continues to cooperate with individual ministries in sectors which include water pollution, irrigation and agriculture, population, energy efficiency and industrial pollution prevention. Improved technologies are being introduced in these areas, with the most important contributions being made in the collection and treatment of sewage, generation and delivery of electricity, and as industrial energy efficiency and pollution prevention. To promote improved conservation and protection technologies, USAID is supporting a number of policy and institutional reforms, including increases in electricity and water prices, increases in wastewater tariffs, official issuance of air emission regulations for Law 4 of 1994, and actions to reduce lead pollution in Cairo.

**Progress in 1993-1994.** Raw sewage flooding in Cairo and Alexandria has stopped. Discharge of sewage onto the beaches of Alexandria has been substantially reduced. Pollutants are being averted: 64,000 metric tons of biological oxygen demand and 124,000 metric tons of total suspended solids were averted from Egypt's fresh water resources. Waterlogging and soil salinity are being reduced through proper irrigation practices. Energy projects are averting the following from urban air: 2,700 MT/Y of NO<sub>x</sub>; 3,800 MT/Y of CO; 3,500 MT/Y of Particulates; 72,300 MT/Y of SO<sub>x</sub>; and 1,800,000 MT/Y of CO<sub>2</sub>.

**Donor Coordination.** The World Bank and other donors assisted the GOE in the preparation of its Environment Action Plan, issued in May 1992. Donor coordination increased thereafter, with Denmark taking a lead role. Denmark provided a \$200 million five-year grant in 1992 for activities in institutional development, environmental monitoring, water pollution prevention, renewable energy, and sanitation. Other complementary donor involvement includes the Germans (industrial pollution, drainage, integrated pest management and sewerage); United Kingdom (wastewater treatment and environmental planning); Canada and the Netherlands (water resource management); and Italians (sewage treatment and historical monument preservation).

**Constraints.** There is no effective administration of new laws and decrees, a situation further hampered by the involvement of too many government agencies in environmental decisions. Lack of environmental information and a uniform monitoring system is another major constraint to informed decision making and to general public awareness.

## **BUILDING DEMOCRACY (\$18,000,000).**

### **SO 8. Strengthened democratic institutions are contributing to lawful governance (\$18,000,000).**

An important objective of U.S. assistance to Egypt is to promote sustainable democracy or

representative government within the context of the rule of law. While Egypt has a long history of formal democratic institutions, dating back to its first Parliament in the 1860s, they do not play the role intended. There is a long history of focusing decision-making at the central level. Nevertheless, the GOE has initiated a national dialogue which is designed to integrate dissenting voices within the current political structure. Egypt's efforts to liberalize the economy will be equally affected by this emerging trend towards openness and increased pluralism in the political sphere.

Indicators. Planned indicators for measuring progress in this objective area include: (1) surveys of expert opinion that the legislature is better informed and is playing a stronger role; (2) surveys of expert and public opinion that courts which USAID identifies for improvement are more responsive to the needs of the public; and (3) surveys of active associations and of all Nongovernmental Organizations (NGOs) receiving USAID support to determine increased NGO influence on public decisions.

Activities. New activities to strengthen the ability of civic groups to identify their problems and voice them in the public arena will be launched. In the area of administration of justice, work is beginning to streamline and automate administrative processes, train staff in new procedures and in the use of legal databases. Training will be provided to the judiciary to assure familiarity with new legal areas, emphasizing civil and commercial law. Work with the legislature, the People's Assembly and Consultative Assembly, will support training of staff in basic policy research methodologies. Activities supporting greater contributions by NGOs will continue.

Feasibility and Cost-effectiveness. Egypt already possesses important infrastructure for democracy. The most promising elements include the rule of law, the relative freedom of the print media, the existence of representative groups, such as the People's Assembly and the Shura Council, and the proliferation of special interest groups. Focusing upon these strengths, USAID encourages increased participation and confidence in democratic institutions to facilitate Egypt's transition towards a sustainable democracy. The GOE has already shown a commitment to concentrate resources in these areas and support USAID activities with the legislature. It seeks a representative body that is more informed and effective. Private special interest groups are eager to strengthen their abilities to determine and voice the interests of their constituents in the public arena. Finally, the justice sector, modeled on the European code system, needs new technology and systems to improve its administration and reduce the case backlog for the timely delivery of justice and increase responsiveness to public needs, including the emerging private sector.

Progress in 1993-1994. Work under this strategic objective is in its initial stages. USAID is poised to help improve the research and analytic capabilities of legislative staff, so that they can provide better briefings and policy options to members on issues of national interest and improve the ability of the legislative branch to oversee the executive. The Library of Congress and a contractor are implementing this activity, consisting primarily of in-depth training in Egypt.

Donor Coordination. USAID is the lead donor in the field of governance and democracy in Egypt. Other complementary donor activities include a small United Nations Development Program (UNDP) grant provided to the People's Assembly/Shura Assembly for computer hardware and software equipment and training, and UNICEF efforts with local NGOs to upgrade their effectiveness. UNICEF also has organized a donor sub-committee on NGOs.

Constraints. Movement towards sustainable democracy in Egypt is fraught with challenges. While the GOE has a wary approach to popular participation, based on the need to maintain stability during this period of economic reform, the number and types of special interest groups existing in Egypt are impressive. Over 12,000 non-profit organizations are registered under Law 32 of 1964 which authorizes their activities but limits their freedom of action. All groups registered under this



law fall under the Ministry of Social Affairs which exerts considerable control over them. Some NGOs have chosen not to register under this law, of which they are vocal opponents. Some of the newer organizations, such as think tanks and other private sector groups, have registered themselves as small businesses to ensure a larger measure of independence. Overall, political sensitivity to foreign assistance in the sector requires USAID's close and thoughtful collaboration with Egyptian counterparts, whether they represent the legislature, the judiciary or civic and NGO groups.

#### **Cross Cutting Issues (\$25,000,000)**

USAID continues to fund a few activities in Egypt that cut across sectoral boundaries and strategic objectives. These include development training that provides U.S. and in-country training opportunities (\$17,000,000) serving both public and private sector needs in areas that complement USAID's overall development effort. Two other activities are the creation of university linkages (\$3,000,000) to help solve select development problems and support for female literacy (\$5,000,000).

#### **Other Donor Resource Flows.**

Egypt receives large amounts of aid from many bilateral and multilateral organizations. In 1994, the donor community, including the World Bank, France, Germany, the European Union, and the African Development Bank Fund, pledged over \$2.4 billion in economic assistance to Egypt. While at least 26 bilateral and multilateral organizations are involved, the United States currently provides the highest portion of assistance annually (approximately 30%) as well as the widest-ranging project assistance.

EGYPT  
FY 1996 PROGRAM SUMMARY

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Improved Macro-Economic Performance	205,000,000				205,000,000
2. Increased private investment and trade	237,600,000				237,600,000
3. Increased production, productivity, and incomes in the agric. sector	89,200,000				89,200,000
4. Improved Maternal and Child Health	35,600,000				35,600,000
5. Reduced Fertility		10,000,000			10,000,000
6. Increased access to, and efficiency and reliability of public utilities in urban target areas	60,000,000		102,000,000		162,000,000
7. Adoption of water and air protection practices			32,600,000		32,600,000
8. Strengthened democratic institutions are contributing to lawful governance				18,000,000	18,000,000
Cross-cutting issues:					
--Training	17,000,000				17,000,000
--University Linkages	3,000,000				3,000,000
--Female Literacy	5,000,000				5,000,000
<b>Total</b>	<b>652,400,000</b>	<b>10,000,000</b>	<b>134,600,000</b>	<b>18,000,000</b>	<b>815,000,000</b>

USAID Mission Director: John R. Westley

## INDIA

FY 1996 Development Assistance Fund Request .....	\$70,433,000
FY 1996 P.L. 480 Title II Request .....	\$85,853,000

With nearly one billion people and a large diversified economy, India is the world's largest democracy and a growing economic and political power in Asia. Reforms to open the economy, beginning in 1991, have greatly improved prospects for reducing the country's massive poverty. In the transition to a market economy, India continues to face profound challenges in providing sufficient food, jobs, medical services, schools and infrastructure for its growing population. The USAID program, which concentrates on population stabilization, environmental protection and economic growth, strengthens American ties with the most important nation in South Asia. The United States is now India's largest trade and investment partner, and annual trade between the two countries is valued at about \$8 billion.

### The Development Challenge

With extensive natural resources, a well-developed industrial base, a diversified agricultural sector, and a burgeoning middle class of more than 100 million, India has the potential to achieve rapid, broad-based growth similar to its East Asian neighbors. However, years of socialist, inward-looking policies exacted a legacy of slow growth and the world's greatest concentration of poor people. India's per capita income is \$300, and the number of extremely poor in India is five times that of Latin America, including the Caribbean. There is more extreme poverty and food insecurity in India than in all of Asia combined, including China. Although the country is self-sufficient in grain production, roughly 50% of the children are malnourished. While gains have been made in life expectancy and literacy nationwide (62 years and 48%, respectively), there are vast differences among states and regions, and between males and females. For example, in Uttar Pradesh, home to more than 140 million Indians, women average five children; one in ten children die before their first birthday; and only one woman in five is literate.

The stabilization and structural reforms initiated by the Government of India (GOI) in 1991 recognized that its past development policies failed to produce broad-based growth and poverty reduction. These policy reforms, which continue today, have proved pivotal in restoring macro-economic stability and encouraging growth. Trade policy was liberalized and customs duties were lowered. The fiscal deficit was lowered to some 6% of gross domestic product, and inflation decreased to single digits. Foreign investment was encouraged and foreign exchange reserves, less than \$1 billion in 1991, are currently estimated at about \$20 billion. GDP grew by more than 5%, and industrial production grew by 8% in 1994.

But India's massive population and environmental challenges threaten gains from these reforms. India's population doubled in the last 30 years, and in just the past decade, the population increased by 170 million which is more than the total population of Japan. Such growth intensifies pressures to increase agricultural production, raising the risk of environmental degradation. India's urban population is the second largest in the world and is expected to grow to 290-350 million by the year 2000; urban areas face staggering demand for water and electricity. The three largest cities, New Delhi, Bombay, and Calcutta, are among the most polluted in the world. India is the fifth largest and second fastest growing contributor to world greenhouse gas emissions.

### Strategic Objectives (SOs)

USAID's program addresses pressing transnational problems of population growth, environmental degradation and human immunodeficiency virus (HIV) and acquired immunodeficiency syndrome (AIDS) pandemic, while promoting policies and institutions appropriate for sustained economic growth. USAID targets its assistance at three strategic objectives:

- Accelerate broad-based economic growth through increased competition and innovation in housing finance, capital markets, power and agribusiness.
- Stabilize India's population growth by reducing fertility in north India. This will be accomplished by increasing contraceptive use in Uttar Pradesh, increasing child survival in northern India and empowering women to have greater control of their productive and reproductive lives.
- Protect the environment by increasing energy conservation and productivity; improving environmental conditions in selected industrial areas and protecting biodiversity.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$8,797,000)**

### **SO 1. Increased competition and innovation in housing finance, capital markets, power and agribusiness (\$8,797,000)**

A permanent reduction in the world's greatest concentration of extreme poverty requires greatly accelerated growth to create jobs and increase incomes. Despite India's significant reforms to date, many deeply entrenched internal and external policy distortions still restrict competition and innovation. Even modest improvements in these areas can greatly reduce poverty in a relatively short period of time. USAID's economic growth strategy, therefore, is targeted on policies and project opportunities that have strong multiplier effects on economic growth. USAID assistance promotes competition and innovation in the housing finance, capital markets, energy and agribusiness sectors. By strengthening financial markets and testing market-based financial institutions, USAID mobilizes relatively high rates of savings in India to generate the investments required for rapid economic growth. By supporting deregulation, privatization and increased foreign investment in selected sectors of the economy, USAID encourages competition and innovation essential to sustained poverty reduction.

Activities. USAID's housing finance program promotes the development of a financially sound, private sector, housing finance system. The objective is to expand long-term home finance for median income and below median income households. USAID has supported private housing finance in India since 1979 and has assisted the rapid expansion of registered housing finance companies. Building on past successes, this program, which draws on \$100 million in USAID loan guarantees, provides capital through the National Housing Bank for new housing finance companies. The expanded policy agenda includes increasing the financial resources available to the housing sector, expanding the number of market-oriented housing finance institutions, and expanding the supply of housing finance to poor income households.

Through training, technical assistance, policy dialogue and \$125 million in loan guarantees, USAID supports the development of India's long-term debt market by promoting and financing commercially viable, urban infrastructure bond issues. It also works with the Securities and Exchange Board of India (the equivalent of the U.S. Securities and Exchange Commission) to strengthen India's capital market regulations and procedures so that the securities industry can more effectively mobilize available private domestic and foreign institutional capital investment. Last year, this market issued over \$10 billion in new capital, and USAID's assistance will help establish a more effective regulatory and operating environment to mobilize even greater investment in the future.

To open the economy, USAID supports an initiative to encourage private foreign investment, particularly U.S. investment, in India's power sector. USAID provides loans, technical assistance and trade and investment tours to increase private (including U.S.) investment in the labor-intensive, agribusiness sector. This activity also promotes improved linkages between horticulture producers and domestic and export markets to increase rural incomes and employment. USAID funds economic policy dialogue, advocacy and training efforts to support the economic reform program by promoting privatization, trade and investment liberalization and financial sector reform.

**Indicators.** The performance indicators for this strategic objective are: to increase foreign direct investment approvals in power generation and agribusiness from \$175 million in 1991 to \$3.5 billion by 1998; increase foreign institutional investment from \$1.8 billion per year to approximately \$5 billion by 1989; increase to five the number of financial instruments mobilizing private capital for urban infrastructure; and increase the proportion of foreign trade to national income from 15% to 20%.

**Feasibility and Cost-effectiveness.** India is a large country where deeply entrenched and pervasive policy distortions still restrict competition, innovation and poverty-reducing economic growth. The benefits of even modest improvements in carefully selected areas can have an immediate, significant and sustainable impact on poverty reduction. USAID therefore targets policies and project opportunities that have strong multiplier effects on competition, innovation and job creation.

Promoting U.S.-India agribusiness collaborations, for example, takes advantage of the United States' strong comparative advantage in this industry, while promoting poverty-reducing growth in a labor-intensive subsector of the economy. Efforts in financial markets are similarly leveraged to maximize the poverty-reduction impacts. For example, through policy dialogue and pilot projects, USAID is helping to expand India's nascent municipal debt market as a source of long-term, private sector, financing for urban environmental infrastructure. This effort will spawn a municipal debt market which is vital to financing the future infrastructure needs of India's 30 cities with populations greater than a million. Another financial market activity builds on the United States' core competence in capital market regulation to facilitate billions of dollars of potential new private investment in Indian enterprise.

**Progress in 1993-94.** In recent years, USAID has made significant progress in a number of areas. Since 1979, when USAID's housing finance program began, private housing finance companies have increased from one to over 250, and loan volume increased from \$2 million to over \$2 billion serving more than a million households. USAID assistance helped to launch India's over-the-counter (OTC) stock market in 1993, and in 1993-1994 alone, this new "OTC" market raised \$29 million for 22 small enterprises. Other efforts to modernize securities industry regulations and institutions have helped India to manage the more than \$10 billion in new capital raised for Indian companies in 1993-1994. Forty-nine Indo-U.S. joint ventures promoted by USAID have increased U.S. exports and created jobs and investment opportunities in India. For example, a \$500,000 USAID investment in a single mushroom cultivation joint venture generated at least 1,000 permanent jobs and spurred another nine companies to launch similar mushroom projects. More than \$5 billion in potential U.S. foreign investment in India has resulted from assistance to the GOI to formulate appropriate policies and institutions.

**Donor Coordination.** The donor community in India works within the framework of the annual Consultative Group meetings organized by both the World Bank and the GOI. During these formal sessions, India's development problems and progress are reviewed, donor assistance is coordinated, and aid pledges are made. Throughout the year, USAID works closely with individual donors to coordinate and leverage USAID's modest resources. For example, in 1993-1994, USAID assisted the GOI's reforms by supporting the National Renewal Fund with P.L. 480 Title III local currency generations under a multi-donor package in which the World Bank served as the lead donor. Similarly, the Asian Development Bank provides policy-based lending for financial market reform for which USAID contributes technical assistance and training.

**Constraints.** Opportunities for USAID to promote growth and poverty-reduction through policy and institutional improvements are largely dependent on the GOI's continuation of the economic liberalization begun in 1991. Although a reversal is unlikely, should it occur, opportunities for assistance in financial markets and foreign investment promotion would diminish.

## STABILIZING WORLD POPULATION GROWTH (\$127,989,000)

### SO 2. Reduced fertility in North India (\$42,136,000 is Population and \$85,853,000 is P.L. 480 Title II Humanitarian Assistance).

About 16% of the world's population lives in India, but the country accounts for only 2.4% of the world's total land area. The population has doubled from 450 million in the 1960s to nearly a billion today. Total population is projected to reach 1.8 billion people before it stabilizes in 2088. As one of the world's poorest countries, India lacks the social and physical infrastructure required for its rapidly growing population and needed for continued economic growth. The gap between population growth and services is reflected in the low level of maternal and child health, extremely high rates of female illiteracy, and widespread unemployment. USAID therefore devotes the largest portion of its program in India to addressing the problem of population growth. Its current strategy focuses efforts on reducing fertility rates in North India, where growth rates are highest, by increasing contraceptive use, child survival and women's empowerment.

Activities. USAID is working with both government and independent, indigenous nongovernmental organizations (NGOs) to reduce fertility rates in Uttar Pradesh, which is India's most populous state with 140 million people. USAID aims to double the use of modern contraceptives over a 10-year period. It also supports social marketing throughout the state. USAID activities focus on making family planning information and services available to couples in small towns and villages and builds upon previous USAID assistance in contraceptive development and research. Using lessons learned from this family planning project, USAID plans to initiate in FY 1996 new activities in selected northern Indian states to deliver reproductive health care services and to improve the role and status of women.

Increasing the probability of survival to age five contributes to a reduction in fertility rates. Family size decisions are significantly affected by high infant mortality and malnutrition. USAID's P.L. 480 Title II food, nutrition and health care programs through the Cooperative for American Relief Everywhere (CARE) and the Catholic Relief Services (CRS) target high-risk children and pregnant and lactating mothers, and reach more than seven million people in 17 states. CARE supports India's integrated child development services, the largest child survival program in the world.

Indicators. The following indicators and targets measure achievement of this objective: The total fertility rate for Uttar Pradesh will be reduced from 4.8 in 1992 to 3.5 in the year 2001. By the year 2001 the fertility rates in other northern states of India will be reduced from 3.9 to 3.0 in Madhya Pradesh; 4.0 to 3.1 in Bihar; 2.9 to 2.0 in Orissa, and 3.6 to 2.7 in Rajasthan.

Feasibility and Cost-effectiveness. Project activities will increase contraceptive use in Uttar Pradesh by increasing access to and demand for quality, family planning services, particularly birth-spacing methods. The costs of improving contraceptive delivery, child spacing and child survival services in India are small in relation to the benefits of reduced costs in health, education and per capita income in the future.

Progress in 1993-94. In 1993-1994, USAID created an autonomous society in Uttar Pradesh to coordinate implementation of the large, 10-year, \$325 million family planning project. In 1994, the project held orientation workshops for all senior district officials and family planning service managers in 63 districts in Uttar Pradesh. The Indian Medical Association trained 3,000 member doctors on family planning counseling and the use of oral contraceptives. A number of NGOs received subgrants to expand service delivery. The USAID-supported National Family Planning Health Survey was completed, and valuable baseline data regarding demographic, health and nutrition status, fertility and family planning practices throughout India have been officially released by the GOI. District-level baseline surveys in 15 of Uttar Pradesh's 63 districts were completed, and results are being disseminated with assistance from the Population Council. An evaluation system for the 10-year project was designed and successfully tested. USAID conducted a major impact evaluation of the

CARE Title II program, and as a result, the GOI and CARE have agreed to phase out of three states to concentrate more resources in the poorest and neediest northern states.

Donor Coordination. USAID collaborates closely with both the World Bank, United Nations Fund for Population Activities (UNFPA) and United Nations International Children's Education Fund (UNICEF) on family planning and basic education programs for the state of Uttar Pradesh. USAID is currently working with the Japanese government aid agency to design a major new population project in North India. USAID is also collaborating with Japan on development of a National Institute of Biologicals, which will ensure the quality of all vaccines and other biological products produced or imported into India. USAID coordinates closely with the United Nations and bilateral donors, particularly UNICEF and the World Food Program, in providing assistance to India's integrated child development services program. USAID's partnership with private donor organizations, such as CARE and the Catholic Relief Services, includes joint development strategies, programs, budgets, and evaluations to ensure success of the large P. L. 480 Title II food program reaches underprivileged populations with nutrition and health interventions.

Constraints. The GOI's aggressive sterilization campaign of the early 1970's left family planning with a negative image, and the national family planning program still lacks broad community and political support. Currently, the GOI is placing greater emphasis on contraceptive technologies and demand generation. The government is also promoting a greatly expanded role for NGOs. For the potential of a successful USAID family planning program to be fully realized, continued open, political support and a stable Uttar Pradesh state government apparatus are required. The low economic, health and educational status of poor women also affects their ability to limit their family size.

## **PROTECTING THE ENVIRONMENT (\$ 18,260,000)**

### **SO 3. Environmental protection increased in targeted sectors (\$ 18,260,000)**

The combination of accelerated economic development and rapid population growth could precipitate an ecological crisis that reverses India's hard-won, economic gains and increases negative impacts on the global environment. Already the second fastest growing producer of greenhouse gases in the world, India could triple its emissions between 1987 and 2010 if there is no change in current practices. Carbon dioxide emissions are expected to double during the same period, and chloro-fluorocarbon (CFC) emissions, which cause ozone depletion, are growing rapidly. USAID's environmental protection activities address these serious environmental concerns, as well as the "brown" environmental concerns such as the lack of adequate basic urban infrastructure causes. At the same time, India is one of the foremost sources of the world's biodiversity and the origin of at least 20 important crop species, including rice, citrus (lemon and orange), banana, cucumber and millet. Loss of genetic diversity threatens many of these crops; deforestation and water pollution also threaten animal and plant diversity. One USAID project is designed specifically to gather and protect germplasm, both to preserve India's biodiversity, and to increase access to important plant species.

Activities. Power plants fueled with high ash coal are a major source of pollution in India. Increasing the percentage of power generated by clean technologies will decrease the volume of CO<sub>2</sub> emissions per unit of power generated. USAID promotes the development of innovative clean coal and renewable energy technologies. It is also helping to introduce efficient management and maintenance of existing electricity generation, transmission and distribution facilities. USAID-financed, hands-on technical assistance to state electricity boards and the GOI facilitates the evaluation and processing of the numerous pending private power investment proposals. Beginning in FY 1995, a new USAID initiative will focus on the commercialization of sugar bagasse-based energy cogeneration. USAID facilitates numerous Indo-U.S. trade and joint ventures in environmental technologies and services. USAID assistance also is developing urban environmental infrastructure through capital markets, addressing the need for clean water supply, waste water treatment and solid waste collection and disposal. Finally, USAID assistance is helping India to construct and equip a national genebank to preserve

germplasm. USAID provides technical assistance in managing the genebank system and carrying out joint exploration and collaborative research on bio-diversity issues of mutual Indo-U.S. interest.

Indicators. The following indicators and targets will measure achievement of this objective: (a) the percentage decrease in volume of CO2 emissions per unit of power generated will decline from 1.24 kg/kwh to an average of 1.04 kg/kwh by 2004; (b) 35% of power will be generated by "clean" technologies by 2004; (c) the number of germplasm accessions stored in genebanks will increase from 176,000 in 1994 to 800,000 in 2000. Quantifiable measures are still being developed for other indicators: increased amount of solid waste collected and disposed of, and waste water treated.

Feasibility and Cost-effectiveness. Power generation in India is only half as efficient as in the United States; a quarter of India's electricity is lost through transmission and distribution inefficiencies. The USAID program targets policies, regulations and technologies that can dramatically reduce the amount of air pollution per unit of power generated, in addition to promoting increased private investment in clean power generation. A principle criterion for USAID's pollution prevention activities is their potential to serve as catalysts to leverage expansion and follow-on activities which will be supported by other important donor organizations such as the World Bank and Asian Development Bank. Further, USAID assistance leverages private investment in cost-efficient public and private partnerships to develop, own and operate environmental urban services.

Progress in 1993-1994. USAID has leveraged additional Indian investments of more than \$4 million in air and water pollution control equipment and facilitated more than 40 business exchanges between the United States and India to explore environmental business opportunities. USAID has trained numerous Indians in the United States in environmental technologies. A total of 25 consortium projects have been funded for technology development in areas such as coal beneficiation. In the area of biodiversity, more than 175,000 germplasm accessions have been identified, collected, and stored for long-term preservation and future access. These plants are now safe from extinction and are being used to develop new and improved food, fodder and medicinal crops.

Donor Coordination. Multilateral development banks are preparing more than \$1 billion in new energy efficiency and environmental programs are in various stages of preparation by multilateral development banks. The World Bank's \$250 million industrial pollution control project strengthens the Pollution Control Board, finances pollution control devices with a focus on the chemical industry, and assists in the establishment of central effluent treatment plants. USAID coordinates with the Asian Development Bank on environmental projects, including one designed to develop environmentally sound coal technology. The EEC has installed an ambient air quality monitoring station in New Delhi and is cooperating in the area of industrial pollution control. Because of the considerable amount of donor activity on the environment, USAID maintains an active dialogue with other donors in this area.

Constraints. The GOI has stepped up spending on environmental protection and made significant advances in the nation's legal and regulatory framework for pollution control. However, the existing system of incentives and levies needs to be modified and strengthened to promote prevention. To accelerate pollution prevention, it will be important to develop an information strategy and clearing house to facilitate access of Indian business enterprise to cost-effective pollution prevention measures.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$1,240,000)**

### **Cross-cutting Issues.**

In addition to the objectives discussed above, USAID will address India's economic growth through AIDS prevention and control. AIDS is an increasingly serious problem in India, with an estimated 1.5 million Indians HIV positive and a potential 5 million by the turn of the century. AIDS threatens economic growth by placing tremendous demands on the health care system and debilitating many of the nation's people. USAID is helping India reduce the transmission of human immunodeficiency virus



(HIV) in the State of Tamil Nadu. USAID supports efforts by non-governmental organizations to initiate programs known to have a significant impact on the spread of AIDS: the use of condoms, the treatment of sexually transmitted diseases, and reduction in the number of partners. Behavioral and operational research, including market research, play a prominent role in the development and evaluation of all project interventions. Groups targeted by these programs include those shown to be at high risk of becoming infected with the AIDS virus (e.g., prostitutes and their clients and other sexually transmitted disease patients). Project beneficiaries include the entire population at risk, but more directly, the spouses, children and communities of the high-risk portions of the population.

#### **Other Donor Resource Flows**

In FY 1993, the United States provided about 2.6% of all donor assistance to India. Major donors are: the World Bank, the International Monetary Fund, the United Nations agencies, the Asian Development Bank, Japan, Germany and the United Kingdom. The United States, while not a major donor, is now India's largest trade and investment partner. Annual trade between the two countries is valued at about \$8.0 billion.

**INDIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Increased Compensation and Innovation in Selected Areas	8,797,000					8,797,000
2. Reduced Fertility in North India						
Development Assistance		42,136,000				42,136,000
P.L. 480 Title II					85,853,000	85,853,000
3. Environmental Protection. Increased in Targeted Sectors			18,260,000			18,260,000
<b>Cross-cutting Issues</b>						
AIDS Prevention	1,240,000					1,240,000
<b>Total, of which:</b>	<b>10,037,000</b>	<b>42,136,000</b>	<b>18,260,000</b>		<b>85,853,000</b>	<b>156,286,000</b>
Development Assistance	10,037,000	42,136,000	18,260,000		0	70,433,000
P.L. 480 Title II	0	0	0		85,853,000	85,853,000

USAID Mission Director: Walter G. Bollinger

## INDONESIA

<b>FY 1996 Development Assistance Fund Request</b> .....	<b>\$61,391,000</b>
<b>FY 1996 P.L. 480 Title II Request</b> .....	<b>\$1,863,000</b>

Indonesia's strategic location, rich resource endowment, large population, rapid growth, and expanding markets all combine to underscore the United States' compelling interest in Indonesia's development and stability. With nearly 200 million people spread across a vast archipelago, and the world's largest Moslem population, Indonesia's stable development has important implications for global and regional prosperity and security. Given its large natural and human resource base and its past record of economic growth, Indonesia has the potential to become a major economic force in Asia. With the United States supplying nearly 12% of Indonesia's imports and a substantial share of its foreign investment, sustained growth in Indonesia will expand opportunities for U.S. businesses and create new jobs for American workers. Americans also stand to gain from encouraging the peaceful transition to a more open and representative political system in Indonesia.

The Government of Indonesia (GOI) has set an ambitious goal of reaching \$2600 in income per capita by the year 2020 from \$700 today. To reach this target, Indonesia has to achieve an average annual growth rate of approximately 7% over the next quarter century. Indonesia has reasonable prospects of realizing its goal. Gross Domestic Product (GDP) growth over the past 25 years averaged almost 7% a year, enabling a dramatic improvement in living standards. Poverty has declined from 60% of the population in 1970 to 15% in 1990, one of the most dramatic achievements recorded anywhere. The infant mortality rate, 132 per thousand births in 1960, dropped to 68 by 1991, and the total fertility rate dropped nearly in half from 5.6 in 1971 to 2.9 in 1994. Prudent macroeconomic policies, substantial investment in economic and social infrastructure and, since the mid-1980s, structural reforms that induced a shift away from capital-intensive, inward-looking activities towards outward-oriented, labor-intensive activities were key elements of Indonesia's successful development over the past 25 years.

While Indonesia's potential is great, so are its challenges. Achieving high growth based on environmentally sustainable resource use requires prudent, yet wide-ranging policy change combined with wise investments in infrastructure, human resource and institutional development. In the political sphere, Indonesia must make the transition to a more open and democratic system. Broadening the democratic participation of Indonesian citizens and civic groups while promoting market-oriented, environmentally sustainable economic growth are mutually reinforcing objectives, and it is in the strategic interest of the United States to assist Indonesia in achieving them. USAID technical assistance has been central to helping Indonesia proceed on the long road to reform. Continued assistance will consolidate the gains of the past and help Indonesia become a full trading partner endowed with an open economy and mindful of the benefits of an open society.

### **The Development Challenge.**

Despite its impressive progress, Indonesia's economic and political challenges remain great. There are nearly 27 million people who are still living in poverty. Their livelihood and that of their children depends on the economy's capacity to generate new employment opportunities. Just to absorb the large increases in its labor force, Indonesia must create over 20 million jobs during the next decade. At the same time, worker productivity and wages must increase if the sources and benefits of growth are to be widely spread. The quantity and efficiency of public and private investment must be increased, incentives restructured, and institutions supporting productive activity strengthened in order to sustain broad-based growth and poverty reduction. To increase productive efficiency, stimulate healthy competition, and promote Indonesia's integration into the global and regional economy, barriers to trade and investment must continue to be dismantled. The GOI must also continue to implement fiscal and monetary policies which ensure macroeconomic stability, and introduce new policies and regulations needed to encourage the expansion and deepening of financial markets. Maintaining

growth and stability, removing distortions to trade, encouraging fair competition, while responding to the demands for greater social and political equity, are critical challenges which Indonesia's economic actors and policymakers face in the years ahead.

While economic growth is vital to Indonesia's success in raising living standards and reducing poverty, to be sustainable, it cannot occur at the expense of Indonesia's vast, but increasingly threatened, natural resource base. Indonesia's environmental treasures include the world's second largest tropical rainforest and the world's longest coastline with extensive coral reefs and other marine resources. In the past, Indonesia's industrialization has been fueled in large part by exploitation of its renewable and non-renewable natural resources. Now its major challenge is to shift away from unsustainable, resource-depleting growth towards strategies which encourage more efficient and sustainable use of natural resources.

The rapid pace of urbanization similarly puts tremendous strains on the environment. By the year 2000, Indonesia's urban population will increase to over 90 million, approximately 44% of the total. The rapid rate of urban population growth has outstripped the GOI's capacity to finance investments in urban infrastructure through its development budget. For example, the cumulative cost of providing piped water over the next 10 years to achieve target coverage of 85% of the urban population is estimated at nearly \$9 billion, while GOI allocations for new water supply are forecast to be about \$4.2 billion, leaving an investment gap of almost \$5 billion. Environmental degradation, particularly contamination of surface and ground water resources from the discharge of untreated household wastes, is emerging as the most serious consequences of inadequate urban infrastructure investment. There has been growing recognition among top policy makers that the central government can no longer afford to continue financing environmental infrastructure investments from central grants. Only by accessing alternative sources of infrastructure finance can the delivery of basic urban services be extended to the urban poor.

Indonesia's success in increasing the availability of basic social services is among the best in the developing world. The country has nearly universal primary school enrollment for both sexes, an accomplishment which contributed significantly to the progress it has made in reducing poverty. Now, however, Indonesia must expand school enrollment to the next level. Currently, only 61% of the pupils complete primary school, and of those less than 65% continue on to junior secondary school. Another major challenge involves increasing the demand for and quality of Indonesia's health and family planning services. Despite having one of the most successful family planning programs of any developing country, Indonesia's reproductive health care system remains inadequate as evidenced by its exceptionally high maternal mortality rate. While the GOI and the non-governmental organization (NGO) community are committed to meeting these challenges, their success will require substantial public and private sector investments, better targeting of public resources, restructured incentives, and strengthened public and private institutions.

Indonesia's economic achievements under the "New Order" regime have been truly impressive. There is no denying, however, that political freedoms and the development of democratic institutions have not kept pace with the country's economic gains. Growing incomes and increased economic welfare invariably give rise to demands for greater political freedoms and participation. As such, Indonesia is at a critical crossroads in its political development. The challenge facing the government, civic community, advocacy groups, and citizenry is how to make the transition to democracy a peaceful one. The political upheaval and violence of the mid-1960s are painful reminders of the cost of failing to meet this challenge. Human rights advocates and civic groups promoting democratic reforms look to the United States for leadership and support. It is clearly in the U.S. interest to continue to provide assistance to Indonesia in order to increase citizens' rights and civic participation and to encourage legal and political reforms which support the smooth transition to a prosperous, democratic society.

## **Strategic Objectives (SOs).**

The USAID program goal is **broad-based and sustainable economic growth in Indonesia**. This goal supports Indonesia's target of achieving a per capita income of \$1,000 by the year 2000, rising to \$2,600 by the year 2020. To attain growth sufficient to meet this target, Indonesia will need to: (1) develop a more competitive, participatory economy; (2) improve health and reduce fertility; (3) reduce the rate of degradation of natural resources and the environment; and (4) enhance democratic participation and rule of law. These four strategic objectives (SOs) underpin USAID's program goal in Indonesia and support the Agency's goals as well.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$13,049,000).**

#### **SO 1. Develop a more competitive, participatory economy (\$13,049,000).**

Achieving the above targeted increase in per capita income will require a sustained annual growth rate of between 6% and 7% with commensurate improvements in the participation of the poor and of the poorer regions of Indonesia. USAID's strategic objective of promoting the development of a more competitive, participatory economy supports these objectives and is an integral part of its overall development assistance strategy. USAID's program in support of this objective consists of primarily policy-based technical assistance, which leverages scarce resources and takes advantage of a special niche which U. S. technical assistance has in Indonesia.

Activities. USAID provides technical assistance to support policy, legal, and institutional reforms. Policies targeted are those affecting the efficiency of public and private investment, market competition and openness, decentralization, the financing of social and urban environmental infrastructure, and microenterprise development. For example, U.S. legal experts are assisting the GOI to modernize its commercial codes and to develop a modern legal information system, in order to encourage efficient private investment and trade and to broaden economic opportunities. USAID policy assistance also supports Indonesia's efforts to deregulate domestic and international trade and to develop the analytical and institutional capacity to further the transition to an open, market-oriented economy. To help meet the immense infrastructure needs of Indonesia's rapidly growing urban and industrial sectors, and to improve the efficiency of resource allocation, U.S. technical assistance is helping the GOI access alternative sources of infrastructure finance such as local resource mobilization, domestic credit, and private investment, to reduce dependence on central grants and foreign loans for investment in urban and environmental infrastructure. U.S.-GOI jointly-funded advisors from the Internal Revenue Service are assisting the Department of Taxation to increase the efficiency of income tax administration, an effort critical to reducing reliance on tariffs and other distortive taxes.

Indicators. USAID indicators for measuring progress toward this objective over the next five years are: (1) steady growth of the real wage rate and a narrowing of the gender-based wage differential (per annum average growth rate of 0.3% for males and 0.7% for females); (2) a modest increase in the real rate of investment (estimated at 10.7% per annum); (3) higher real GDP growth of approximately 9% per annum for five of the poorest regions in Indonesia; and (4) sustained growth of about 10% per year in non-oil exports (expected to be matched by import growth).

Feasibility and Cost-effectiveness. This effort is feasible because Indonesia has demonstrated its capacity to achieve significant growth with poverty reduction and is committed to making further progress over the next 25 years. Its success depends on its ability to effect bold policy change based on informed analysis and public dialogue, and to implement these reforms via strengthened economic institutions. While Indonesia has made progress in developing its human resource capacity, the layer of competent analysts is still very thin. At the same time, the next layer of economic development problems and policy changes required are ever more complex and risky, making the potential cost of policy mistakes much greater. USAID's niche lies in its ability to provide highly competent technical advisors whose knowledge and expertise can contribute critically to the policy dialogue and institutional

development, resulting in improved policies and strengthened institutions. The Indonesian government, private sector, and NGO community seek and are highly receptive to U.S. technical assistance. This gives USAID a special advantage in effecting meaningful policy and institutional change in Indonesia--and one which earns us very high returns on our modest investments.

Progress in FY 1993-1994. Indonesia made considerable progress towards the development of a more competitive, participatory economy in 1993/94. Real GDP grew by 6.7% in 1993 and is estimated to be the same in 1994, while inflation in both years was kept below 10%. Improved tax administration, taxpayer compliance, and a growing tax base contributed to a whopping 25% growth in non-oil tax revenues in FY 1993-1994. Indonesia was a full and active participant in the General Agreement on Tariffs and Trade (GATT) Uruguay Round negotiations, and for the first time, agreed to bind over 90% of its tariffs. The June deregulation package reduced tariffs on 739 items and abolished 108 tariff surcharges--liberalization which extends beyond Indonesia's GATT and World Trade Organization obligations. New measures to increase foreign investment were announced in June: the minimum investment requirement for 100% foreign ownership was removed and divestiture requirements greatly reduced. Foreign investment picked up strongly following the deregulation. Indonesia's leadership in Asia-Pacific Economic Cooperation (APEC) and support for a bold agreement to liberalize trade in the Asia-Pacific region augurs well for further deregulation of Indonesia's trade and investment regime. In October, Indonesia successfully launched a major public offering of shares in its state-owned telecommunications firm, and is preparing to do the same for other state-owned companies. USAID's technical assistance contributed to all of these accomplishments.

Donor Coordination. USAID's work to promote a more competitive, participatory economy via policy and institutional reform is complemented by the work of other donors. In several instances, pioneer USAID activities have led to sizable follow-on projects funded by larger donors (the multilateral organizations and Japan). In many cases, USAID's technical support on policy and institutional issues greatly increases the returns to other donor-supported investments.

While World Bank economists play an important role in analyzing key macroeconomic and sectoral developments and policy issues, operational constraints limit the Bank's ability to provide technical assistance. Thus, USAID's technical assistance support for policy and institutional reform is highly appreciated by the Bank and other donors who count on the United States to provide leadership in this area. A few bilateral donors, e.g., the Germans, British, and Japanese, also provide some in-country policy assistance in support of developing a more competitive, participatory economy.

Both the World Bank and the Asian Development Bank (ADB) provide substantial loan assistance for infrastructure development. Their staff consult frequently with USAID personnel whose in-country expertise is critical to understanding and reforming the policy and regulatory framework for such investment. For example, USAID's technical support for development of the Regional Development Account paved the way for the ADB to provide direct financing to cities and regions for urban water and sewerage projects.

The International Labor Organization (ILO) is helping to identify policy and institutional issues which need to be addressed in formulating Indonesia's microenterprise policies and programs. The ADB also supports microenterprise development: the design of its new \$26 million loan-funded microcredit project drew substantially on USAID's highly successful experience in this field. The World Bank is planning to support policy work initiated by USAID to strengthen the development of Indonesia's financial markets.

Constraints. Indonesia's capacity to increase economic competitiveness and expand productive opportunities is constrained by low educational attainment, poor quality health care, policy-induced distortions, outdated commercial laws, and weak institutions. In addition, Indonesia's prospects for accessing alternative sources of infrastructure financing are constrained by weak local government institutions, lack of term financing in the capital market, and a resistance in the central government

to shifting from direct provision to an enabling approach to service delivery. Helping tackle these formidable constraints--through technical assistance for economic policy and legal reforms, complemented by assistance to strengthen local capacity to conduct sound policy analysis, formulation, and implementation--builds on the strong U.S. reputation in providing leadership in this sphere.

#### **STABILIZING POPULATION GROWTH (\$14,683,000).**

##### **SO 2. Improve health and reduce fertility by stabilizing population growth and encouraging broad-based economic growth (\$14,683,000).**

Improving health and reducing the fertility rate will have a direct bearing on the ability of Indonesia to sustain its economic growth. Despite tremendous strides in the 1970s and 1980s in developing a comprehensive system of health and family planning service delivery, there are sharp differences in both the total fertility rates and the infant mortality rates across the country. Both the infant and maternal mortality rates are the highest among countries in the Association of Southeast Asian Nations (ASEAN) region. In order to reach Indonesia's fertility goal of approximately 2.1 births per woman by the year 2005, contraceptive prevalence must rise from 55% to more than 60% of married women by the year 2005. This will require increased reliance on private sector services and increased use of long-term methods.

The prevalence of sexually transmitted diseases among high risk groups is high and reported human immunodeficiency virus (HIV) positive cases are increasing exponentially. The HIV and acquired immunodeficiency syndrome (AIDS) epidemic threatens not only the health of individuals, but potentially also the future economic viability of the country.

Activities. The Indonesian family planning program has gained world recognition for its success in reducing fertility in the last two decades. This reduction has been due primarily to the rapid increase in contraceptive use, from less than 10% of married women age 15-49 in 1971 to 55% in 1994. To help Indonesia achieve its goal of a two-child family size by the year 2005, USAID is focusing its efforts on increasing contraceptive use in the most heavily populated provinces and among hard-to-reach groups; increasing the availability, utilization and quality of long-term family planning methods; and improving the sustainability and impact of family planning services delivered through non-governmental organizations (NGOs) and the commercial sector.

Infant mortality has declined dramatically in the last 20 years--from 132 per 1000 in 1971 to 68 in 1991. Yet Indonesia continues to have the highest infant and maternal mortality rates in the ASEAN region. USAID has supported programs designed to improve national health policy and test viable maternal and child health models in areas such as oral rehydration therapy delivery, immunization and micronutrients. To help develop a more sustainable health care system, programs in managed health care, hospital cost-recovery and rational pharmaceutical utilization have been developed and are being implemented on a pilot basis.

As of November 30, 1994, Indonesia had 266 officially reported and confirmed cases of HIV infection, including 67 confirmed cases of AIDS. The GOI currently estimates that there are 60,000 HIV positive people; the World Health Organization (WHO) estimates there may be as many as 75,000 people currently with HIV/AIDS, with a doubling time of less than six months. USAID is initiating HIV/AIDS prevention activities focusing on policy support, information and education, condom promotion, and control of sexually transmitted diseases (STDs).

Indicators. The indicators for measuring progress toward achieving this objective are: (1) to reduce the total fertility rate from 2.86 in 1994 to 2.70 in 1996, (2) to decrease the syphilis prevalence rate among high risk population in demonstration areas from 20% in 1994 to 10% in 1996, and (3) to reduce the maternal mortality rate per 100,000 live births from 450 in 1994 to 400 in 1996.

**Feasibility and Cost-effectiveness.** All aspects of this objective are covered under Indonesia's five-year development plan and national policies and political support exists in all areas. Lowering the fertility rate and improving maternal and child health will act synergistically to decrease demand for expensive curative services. HIV/AIDS prevention activities and interventions are much more cost-effective than managing the care of AIDS victims. USAID's contributions to family planning, maternal and child health and HIV/AIDS/STD prevention are small in relation to the benefits of future reduced costs of providing health and other social services to a smaller and healthier population.

**Progress in 1993-1994.** In 1993-1994, the GOI initiated a change in focus from contraceptive use targets to a much broader range of client-centered activities which includes: a comprehensive variety of contraceptive choices, reproductive health, and a wide range of social and economic improvements for women and the family. Supported by USAID, the GOI has established three new policies promoting improved maternal health care: establishment of standards for quality prenatal care, increased training and deployment of village midwives, and establishment of additional birthing houses. In mid-1994 the GOI established a multi-ministerial AIDS Coordinating Committee and issued a National AIDS Control Strategy--both positive steps which will enhance implementation of USAID's new HIV/AIDS program.

**Donor Coordination.** In HIV/AIDS/STD prevention, USAID has collaborated extensively with the Australians, the Germans, the Japanese, and with the WHO, the United Nations Development Program (UNDP) and the World Bank in development of their respective projects and activities totaling well over \$100 million. In maternal and child health, both the Australians and the Japanese are developing integrated provincial activities in Sulawesi, totaling approximately \$30 million. These complement and provide substantial opportunity for collaboration with USAID's MotherCare activities in South Kalimantan. Numerous discussions and information sharing with the World Bank have resulted in replication of the Klaten (Central Java) health sector financing model for managed health care in the five provinces covered under a major new World Bank project. USAID is also currently considering providing technical assistance to complement and assist this World Bank Project in five provinces. In family planning and population, USAID works closely with the World Bank, the United Nations Fund for Population Assistance (UNFPA), the Ford Foundation and the Japanese.

**Constraints.** Since the creation of the Ministry of Population in 1993, the focus on family planning objectives has become secondary to broader family well-being goals. This, combined with the recent drop-off in use of inter-uterine devices (IUDs) as a contraceptive method, has resulted in reduced long-term method use, which in fact must increase if fertility reduction objectives are to be achieved.

While top policy makers are beginning to understand the enormous burden which a major AIDS epidemic would impose on Indonesia, they are reluctant to confront and address the need to promote condoms for disease control, the existence and extent of Indonesia's commercial sex industry, and the high prevalence of extramarital sex.

## **PROTECTING THE ENVIRONMENT (\$25,336,000).**

### **SO 3: Reduce the rate of degradation of natural resources and the environment (\$25,336,000).**

Pressure on Indonesia's natural and biological resources (the most extensive in Asia) is intense and growing. Many of Indonesia's development problems are directly linked to the economy's reliance on processing primary products and to the urban population's increasing demand for potable water. With rapid urbanization and industrialization, the country faces a formidable challenge to preserve its natural resource base and to reduce pollution while sustaining economic growth and improving the well-being of Indonesians. Positive actions in this area will have a impact globally as well as nationally.

**Activities.** The GOI's current strategy to achieve high economic growth through greater reliance on diversified exports is heavily dependent on successful management of its rich natural resource base. However, several serious issues have surfaced: deforestation, industrial pollution, and urban



environmental degradation, loss of biodiversity, degradation of water and land resources, and destruction of coral reefs. USAID's strategy focuses on regulatory and institutional change and supports pilot activities, the successful outcome of which influence policy and thereby achieve more wide-reaching results. USAID has funded activities to stimulate community participation in the management of natural resources such as the Bunaken Manado Tua National Park (coral reefs management) in North Sulawesi and the Bukit Baka-Bukit Raya National Park (traditional forest concept area inside forest concession) in Kalimantan. Current efforts concentrate on the adoption of improved policy, management, and financial practices at grassroots, local, and central government levels.

Indicators. The indicators for measuring progress toward achieving this objective by the year 2000 are: (1) reduced rate of conversion of natural forests to agricultural and other uses from a current rate of 1,000,000 hectares per year to 600,000 hectares per year, (2) improved surface water quality (measured by a reduction in the Biochemical Oxygen Demand from its current level of 43,453 tons/year to 32,000 tons/year in 2000 and a reduction in the Chemical Oxygen Demand from 108,000 tons/year to 80,000 tons/year by the same year, and (3) increased real per capita investment in urban environmental infrastructure and services from 13,400 rupiahs/capita in 1991/2 to 28,500 rupiahs/capita in the year 2000.

Feasibility and Cost-effectiveness. There is a growing awareness in Indonesia of the economic and ecological importance of natural forests. However, pressure to convert forests to other uses remains quite strong. The targeted reduction in the rate of deforestation is ambitious but feasible and economically viable.

Improving surface water quality by reducing pollutants is feasible and highly cost-effective. The GOI has adopted industrial waste minimization as a national strategy. The private sector has provided substantial support to the program. Many pilot factories have enjoyed environmental and economic benefits by adopting new waste minimization techniques. We expect the government and the private sector will continue to direct substantial human and financial resources to this sector.

The lack of basic services is having a tremendous negative impact on the urban environment. Water sources are diminishing or unusable due to pollution. Sanitation systems are poorly designed or nonexistent. Solid waste facilities are overburdened or ineffective. In response, Indonesia is creating a system to increase urban infrastructure expenditures by decentralizing municipal finance and planning and by increasing investment from the private sector.

Progress in FY 1993-1994. A major accomplishment was the establishment of new baseline data on the extent of forests--113 million hectares. Considerable progress was also made with the assistance of USAID advisors in promoting new policies and practices to encourage community participation in managing forests, parks, and local environmental infrastructure investments. Establishment of the independent grant-making Biodiversity Foundation, funded in part by USAID, was particularly significant. Field trials and economic studies indicated significant opportunities to reduce logging waste and to develop higher-value forestry products. USAID sponsored 20 waste minimization assessments (pulp and paper, metal finishing, textile finishing) plus related workshops and training sessions. Application of these findings will slow the rate of deforestation and reduce the pollution of urban water sources.

U.S. technical assistance has been instrumental in facilitating GOI agreement on establishing a transparent enabling framework which is needed to attract private investment and improve public investment in urban services. The United States-Asia Environmental Partnership (USAEP) has supported U.S. sales in the delivery of municipal services, providing outreach and counselling to more than 50 U.S. firms which has already resulted in \$5.5 million in contract awards, and an anticipated \$22 million in early 1995. This USAID-supported assistance has led to a 13% increase in urban environmental infrastructure investment over last year. Urban households served by piped water increased by about 8% over the same period. Increased expenditure on urban infrastructure, together

with more effective use of these funds, continues to bring about improved access to safe water, sanitation, drainage and solid waste disposal, which in turn is leading to improved health, especially for women and children; and to increased urban employment opportunities and economic growth.

**Donor Coordination.** Donor coordination is continuing to expand on several fronts: (1) a World Bank loan to co-finance farmers' training and extension activities identified in USAID's integrated pest management program; (2) Asian Development Bank (ADB) financing of technical assistance for local governments to prepare proposals for loans for urban environmental infrastructure, partially supported by the USAID Housing Guaranty program; (3) Japanese Government financing for complementary activities in degree training, applied research and nature conservation to support the implementation of the new Indonesian Biodiversity Conservation Program for NGOs, scientists and others; (4) the World Bank and USAID's collaboration to promote improved forest management policies; (5) training for local government officials to improve municipal management and urban environmental practices sponsored by the USAID and the World Bank; and (6) World Bank support to complement USAID's efforts in promoting renewable energy.

**Constraints.** Establishing an accurate and cost-effective forest monitoring system is a significant challenge. Adoption of politically sensitive forestry policies, such as forest resource use and extraction rights for indigenous communities, reducing production subsidies, and a more open policy debate will require a carefully crafted, step-by-step approach. Overall public and private funding is insufficient to meet the growing needs of waste minimization demands. Also, resources move through different mechanisms which makes coordination difficult. As Indonesia decentralizes responsibility for infrastructure investment from central to local governments, experience in other countries suggests that there may be a slow-down in implementation as the executive capacity of local governments may temporarily fall below that of central government.

#### **BUILDING DEMOCRACY (\$8,323,000).**

##### **SO 4: Enhance democratic participation and the rule of law (\$8,323,000).**

As Indonesia develops economically, the need for a more open, pluralistic system to involve Indonesia's diverse population in the civil society becomes more urgent. Without a more transparent and participatory political system, sustainable economic growth is in jeopardy. Fundamental freedoms common in the West remain limited in Indonesia, and most observers expect the central government to hold tight rein on political activity for the foreseeable future. Nonetheless, there are opportunities for key institutions in and outside the GOI to promote individual initiative and participation in public policy and decision-making. As the number and capabilities of these institutions increase, greater citizens' rights and civic participation will occur.

**Activities.** Over the past several years, USAID has directed increased attention and resources toward activities which encourage greater citizen participation in public decision-making and increase access to legal information. U.S. concern over human rights issues in East Timor has been marked by significantly increased USAID funding for activities promoting Timorese development. Current program activities focus on increasing the effectiveness of key institutions such as NGOs, unions, the independent media, and legal groups. These institutions provide important leverage in promoting citizens' rights through institution strengthening and expanded opportunities for participation. A new project will begin implementation in FY 1995.

**Indicators.** USAID has been using the following key indicators for measuring progress toward this objective: (1) increased NGO mobilization of public opinion through surveys, seminars, and publications; and increased NGO advocacy campaigns in the areas of human rights, environment, labor and independent media; (2) increased awareness of existing laws through the efforts of selected NGOs and government agencies; and (3) more alternative dispute resolution mechanisms and increased usage. However, the mission is currently designing an updated democracy program which will

incorporate revised, quantitative measures of progress in achieving the strategic objective. These indicators will be reviewed and approved in April 1995.

Feasibility and Cost-effectiveness. The GOI's reaction to changes leading to a more open, pluralistic system has been mixed. The government recently banned three prominent publications and detained those who protested that action. On the other hand, the GOI created the National Human Rights Commission which has demonstrated a significant degree of independence and influence; the military has taken disciplinary action in several well-publicized cases against members charged with human rights violations; and the parliament has taken a slightly more independent, activist stance on corruption and economic development planning. The GOI's commitment to a process of decentralizing responsibility for planning and managing urban development programs also has possible implications for increased civic participation.

The NGO community is growing larger, more vocal, and more skilled at bringing citizen concerns to public and GOI attention. The GOI actively supports NGO participation in development and poverty alleviation, and recognizes that NGOs can frequently identify problems at the grassroots level and provide special, pilot services and programs beyond the government's capacity. NGOs offering programs in legal and workers' rights, environmental and consumer protection, and land tenure, however, are sometimes challenged by the GOI. USAID's NGO program is relatively low-cost and flexible, allowing us to respond quickly, as circumstances require, as for example in East Timor.

Progress in FY 1993-1994. Twenty-two ongoing NGO grants funded by USAID have a primary or secondary focus on citizens' rights and civic participation. Training and technical assistance has strengthened these NGOs, and as a result, constituents and their ideas are better represented in a variety of areas: in the press as a result of journalism training; in parliament as a result of improved information services to members; workers' rights as a result of trade union training; consumer rights advocacy; human rights protection, legal aid services and legal research; and grassroots economic development activities which are responsive to locally determined priorities.

USAID continued assisting the GOI in developing a legal framework which will allow legislators, economic policy makers, government legal bureaus, businessmen, and the public to understand existing laws and regulations, and help them to avoid inconsistencies and contradictory policies in the development and implementation of the law. It is anticipated that this will lead to more public confidence in the legal system, reduce barriers to foreign and domestic business entry into economic activity, reduce costs incurred in economic transactions, and help to prevent unfair practices that create a gap between the privileged and nonprivileged in the society.

Donor Coordination. The World Bank has established a team on legal reform, which is a priority area in the current GOI Five-Year Development Plan. UNDP is orienting its programs more toward good governance, human rights, and advocacy. The ILO has a particular interest in workers' rights and union participation. Some bilateral donors (for example, the Canadians) are in the process of developing strategies for human rights, good governance and democratization. Other bilateral donors (the Scandinavian countries), foundations and private voluntary organizations have also begun to provide assistance to Indonesia in areas related to democratization and human rights.

Constraints. Progress in this area is contingent on a gradual evolution toward greater openness by the GOI, and conversely, any government clampdown on NGOs would seriously hinder USAID programs. Vested interests may attempt to prevent the GOI from improving access to legal documents in order to maintain their dominant position in the economic and political system.

**PROVIDING HUMANITARIAN ASSISTANCE (\$1,863,000).**

These funds, which represent the final P.L. 480 Title II resources for Indonesia, will be used to phase-out Food for Work and Mother-Child Health programs implemented by Catholic Relief Services. These programs also respectively support SOs 1 and 2.

**Other Donor Resource Flows.**

In 1993 Indonesia received \$2.02 billion in overseas development assistance (ODA). The largest donor was Japan, with \$1.149 billion, followed by Germany, with \$279 million; France, with \$114 million, Austria, with \$96 million; and Australia, with \$85 million.

**INDONESIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Develop a more competitive, participatory economy	13,049,000					13,049,000
2. Improve Health and Reduce Fertility		14,683,000				14,683,000
3. Reduce the rate of degradation of natural resources and the environment			25,336,000			25,336,000
4. Enhance democratic participation and the rule of law				8,323,000		8,323,000
<b>Total</b>	<b>13,049,000</b>	<b>14,683,000</b>	<b>25,336,000</b>	<b>8,323,000</b>		<b>61,391,000</b>
<b>P.L. 480 Title II</b>					1,863,000	1,863,000

USAID Mission Director: Charles F. Weden

## ISRAEL

**FY 1996 Economic Support Fund Request . . . . . \$1,200,000,000**

U.S. assistance to Israel supports the peace process in the Middle East initiated at Camp David when Egypt and Israel signed the Peace Accords. The process has moved forward with Israel's signing of the Declaration of Principles with the Palestinians on September 13, 1993, and signature of the Peace Treaty with the Jordanians on October 17, 1994. Israel retains the only fully democratic form of government in the region. Its political and economic stability continues to be important in furthering U.S. foreign policy objectives in the Middle East.

### **The Development Challenge**

The structure of the USAID program for Israel is atypical of other USAID assistance programs in that there is neither projectized assistance nor USAID staff in Israel for this program. Rather, the program supports the implementation of the historic Camp David accords and provides Israel with an annual cash transfer. Hence, there are no structured specific objectives.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$1,200,000,000)**

Activities. A key USAID objective in Israel is to support Israel's balance-of-payments as it continues to pursue the economic reforms required for financial stability and structural adjustments needed for rapid sustainable growth. Though the U.S. cash transfer is not conditioned on economic policy reform, the ongoing U.S. State Department-chaired Joint Economic Development Group encourages Israeli reforms to reduce government spending and deficits, improve tax and public wage structures, increase privatization, reform labor markets and continue to liberalize its trade regime. The cash transfer is used by Israel primarily for repayment of debt to the United States, including Foreign Military Sales debt, and purchases of goods and services from the United States.

Indicators. Quantitative indicators of progress for Israel's economic growth and progress with economic reforms are improved export competitiveness and reduced inflation.

Feasibility and Cost-effectiveness. The projected increase in foreign exchange earnings from export growth, and from increased numbers of visitors staying longer and spending more as a result of the accelerating peace process is a feasible target. The GOI's resultant ability to forge new relationships with its neighbors provides further stimulus for exporting goods. Eased border crossings are another result of the peace process and also are expected to encourage increased tourism.

Progress in 1993-1994. There has been some success in stabilizing the economy of the Government of Israel (GOI) in spite of the inflow of immigrants which has increased the population by two percent per annum. Employment has risen, and export competitiveness has improved. However, inflation has been increasing. Unemployment has declined since 1993. Expanding business investment and governmental infrastructure investment coupled with sustained export growth are projected to maintain the gross domestic product growth rate at about five percent.

Constraints. Structural adjustment will require greater liberalization and restructuring of the large public sector, through expenditure reductions and privatization of public sector enterprises, both of which are political obstacles.

### **Other Donor Resource Flows**

The United States remains the largest bilateral donor. Germany, France, Netherlands and Switzerland also are major donors.

**ISRAEL  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objective</b>					
1. Support policy reforms required for financial stability and structural adjustments needed for rapid sustainable growth.	1,200,000,000				1,200,000,000
<b>Total</b>	<b>1,200,000,000</b>				<b>1,200,000,000</b>

Office of Middle East Affairs Director: Philip Gary

## JORDAN

<b>FY 1996 Economic Support Fund Request</b> . . . . .	<b>\$7,200,000</b>
<b>FY 1996 Development Assistance Fund Request</b> . . . . .	<b>\$7,858,000</b>

Jordan is a small, Middle Eastern kingdom which has common borders with Israel, Syria, Iraq and Saudi Arabia. Because of its strategic location, Jordan has historically played an important political role in the region. The signing of a peace treaty with Israel in October 1994 reenforced that role and provided a new impetus to the Middle East peace process. Triggered by the signing of the peace treaty, the U.S. Government has forgiven Jordan \$220 million in debt. This supports USAID's objective to encourage economic growth in the country. With a constitutional monarchy and a bicameral legislature, Jordan has set a democratic standard for the rest of the Arab world. But Jordan's fledgling democracy, ability to "wage peace" and continuing efforts in the regional peace process will depend on political and economic stability, which can only be achieved with U.S. and other donor assistance.

### **The Development Challenge**

Jordan has few natural resources, primarily phosphate, potash from the Dead Sea, and a few other products such as limestone. About the size of Indiana, Jordan covers approximately 35,000 square miles of land, but only about eight percent is arable. Population growth has put tremendous pressure on water, Jordan's most scarce resource. Water from aquifers and surface sources is extremely limited and must be conserved. Jordan's 4.1 million population is growing at the annual rate of 3.4 to 3.6 percent per year, which is one of the highest population growth rates in the world. At the present annual rate, the population is expected to increase to six million by the year 2000. Population growth has seriously taxed Jordan's economy, which has long relied on regional aid, remittances and trade with other Arab countries, and Jordan must continue to diversify its exports and increase its foreign exchange earnings. Jordan is faced with restructuring its economy so that its most abundant resource, its now under-utilized educated labor force, can be productively employed to increase exports of goods and services. In addition to the macroeconomic adjustment now underway, Jordan must create a policy, administrative and financial climate conducive to the production of goods and services of internationally competitive standards. This is vital to Jordan's long-term economic and political stability, and its ability to reap the benefits of the peace with Israel.

### **Strategic Objectives (So's).**

USAID is pursuing three strategic objectives aimed at the three primary threats to Jordan's economic growth:

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH** (\$8,200,000 of which \$7,200,000 ESF and \$1,000,000 DAF).

**SO 1. Increased foreign exchange earnings from selected export industries and services: fruits and vegetables; the cultural and environmental visitor industry; and manufacturing industries.** (\$5,200,000 Economic Support Fund and \$1,000,000 Development Assistance Fund).

Activities. Jordan's economy has long been dependent on a flow of resources from abroad which has proven unreliable in the face of political and economic vagaries. When the oil bonanza of the 1970's ended, Jordan offset declines in subsidies and remittances from the Gulf states by increased long-term borrowing. The results were an unsustainable debt burden and a consequent structural adjustment program initiated in 1989 with IMF and World Bank assistance. The Gulf crisis, however, exacerbated Jordan's problem by halting trade with Iraq, one of its major trading partners; ending aid from the Gulf states; and drastically decreasing remittances as Jordanian workers were compelled to return home from the Gulf. Jordan's debt-to-GDP ratio continues to be one of the highest in the world in spite of

the U.S. Government \$220 million debt forgiveness. Consequently, Jordan must increase and diversify its sources of foreign exchange earnings by increasing exports through policy improvements and strengthened private sector capacity. Export led growth will also increase employment opportunities as new jobs are created in production, distribution, marketing, and related services. USAID's assistance aims to lessen market barriers and lower production costs, which will increase the international competitiveness of Jordanian goods and services; promote private sector investment in the export sector; and increase foreign exchange earnings from foreign visitors. USAID supports this objective through support for marketing of fruits and vegetables to non-traditional markets; fostering regional trade linkages across newly opened borders; establishing Jordan as a service center for incipient Arab-Israeli trade; supporting the preservation and management of cultural and environmental visitor attractions; and, with the participation of private voluntary organizations (PVOs), improving the quality of services and handicrafts offered to international visitors.

Indicators. USAID indicators at the strategic objective level for measuring progress toward achieving this objective are: (1) increased annual percentage in the dollar value of exports from manufacturing industries from \$366 million in 1992 to \$377 million in 1996 to \$412 million in 1999; (2) increased annual percentage in the dollar value of exports from fruits and vegetables from \$85.5 million in 1993 to \$99 million in 1996 to \$115 million in 1999; and (3) increased annual percentage in the total dollar value of cultural and environmental visitors from \$95 million in 1993 to \$116 million in 1996 to \$178 million in 1999.

Feasibility and Cost-effectiveness. An increase in foreign exchange earnings from manufacturing exports, agribusiness and increased numbers of visitors is both feasible and cost effective. Jordan lost most of its traditional markets in the Gulf states, but through product improvements and marketing efforts, Jordan's exporters have demonstrated that they can produce manufactured goods, fruits and vegetables that are internationally competitive in quality and price. The advent of peace presents new opportunities for trade and investment and provides a further stimulus for Jordanian exporters to improve the quality and cost competitiveness of their products. Peace will also enable Jordan to tap into Israel's well developed international visitor industry and develop collaborative, cost-sharing activities to attract visitors to the region, thereby increasing foreign exchange earnings for both countries.

Progress in 1994. Progress over the last year has been substantial. In response to USAID's Sector Policy Reform program, the Government of Jordan (GOJ), has improved the climate for exporters by eliminating export licenses, simplifying customs procedures, and initiating major efforts to redraft laws which act as barriers to increased trade and investment. The establishment of an agribusiness "Exporters Association", with USAID support, provides the mechanism for the private sector and GOJ to address impediments to the export of fresh fruit and vegetables. Also, the Association was instrumental in initiating direct trade with Israel. In anticipation of a substantial increase in the number of foreign visitors to Jordan, USAID has begun a project that will help Jordan manage and protect some of its most fragile cultural and natural resources.

Donor Coordination. USAID's policy framework complements that of the International Monetary Fund (IMF) and the World Bank and was a logical follow-on to the World Bank's structural adjustment program which started in 1989. Similarly, USAID's efforts to eliminate policy constraints to improve foreign exchange earnings, particularly those leading to improved export performance and the mobilization of investment, will provide the foundation for another World Bank trade and finance structural program that is being designed for implementation in 1996 or 1997.

Constraints. The GOJ can reduce public sector involvement in key export sectors by eliminating statutory and regulatory provisions that discourage investment in export-oriented industries. Among these problems are the lack of clarity regarding the limitations on foreign ownership and sectors in which foreigners can invest. Also, the GOJ can allow the private sector a freer hand to respond to market forces in developing the infrastructure and services needed.



**SO 2. Improved quality and increased quantity of water available for use. (\$2,000,000 Economic Support Fund).**

Water is one of the most valuable resources in Jordan. The lack of adequate quantities of water is now a problem and portends to be a national catastrophe in five to ten years. Virtually all natural sources have been tapped. Total water availability (public and private sources) was estimated at 955 million cubic meters in 1991 as compared to an actual consumption of over one billion cubic meters. The deficit was met by over-pumping of aquifers. The demand for water is estimated to grow to 1.2 billion cubic meters by the year 2000. The problem of the scarcity of water is exacerbated by rapid population increase, institutional management weaknesses, inefficient water use and management practices, lack of adequate wastewater treatment capacity, and inappropriate pricing policies. Costly desalination plants are not yet economical, leading to the conclusion that Jordan must manage more efficiently its existing water resources and reach agreement with other nations in the region on the reallocation of existing resources and the initiation of regional water projects.

Activities. Since virtually all known sources of water in Jordan have been tapped, a significant portion of USAID's activities is directed toward water conservation and re-use. On-farm and industrial water practices will be improved, pricing and other policies to encourage cost recovery will be introduced, and wastewater treatment capacity will be expanded. These actions will be facilitated by a strengthened institutional capability of the Ministry of Water and Irrigation (MWI), through USAID's water quality and conservation program that began in FY 1994. USAID will finance construction of important, selected wastewater treatment facilities and undertake measures to control industrial pollution in order to render the water fit for agricultural use. In addition to contributing to water reuse by redirecting water toward agriculture, this activity will contribute to redressing the existing imbalance of water allocation among the sectors. USAID will continue to fund feasibility studies and designs of larger projects which will serve to leverage increased capital investment by other donors and the GOJ.

Indicators. The indicators for measuring progress toward achieving this objective are: (1) increase in public water available for use from 435 million cubic meters in 1991 to 470 million cubic meters in 1996 to 520 million cubic meters in 1999; and (2) annual percentage increase in wastewater treated to standard from 37.255 million cubic meters in 1991 to 48.432 million cubic meters in 1997 to 116.237 million cubic meters in 1999.

Feasibility and Cost-effectiveness. The GOJ recognizes the severity of its water shortage and has already taken some remedial actions that will improve the quality and increase the quantity of water available for use. On the management side, MWI has established a Policy and Planning Directorate which is responsible for policy development and strategic planning. With the help of foreign assistance, the Ministry is currently renovating the water conveyance system in greater Amman to decrease the water lost through leakage and is planning to increase substantially the charges for irrigation water. Progress in the peace process will facilitate greater regional cooperation in the allocation, utilization, and development of water resources.

Progress in 1994. Implementation of the water quality and conservation project began in FY 1994 and five long-term specialists are now assisting the MWI in various fields of the water sector. Several short-term experts have helped improve the capabilities of the Ministry in the fields of management information systems, human resources development, water quality monitoring and industrial pollution prevention. The contract for upgrading the As-Samra stabilization pond system was signed in January 1995 and construction will start in the near future.

Donor Coordination. USAID is coordinating closely with the World Bank on the following activities:

- Agricultural water policy (USAID helped shape the formulation of the World Bank's recently approved agricultural sector adjustment loan which has a strong water policy component.);

- Cost recovery, including appropriate pricing, for delivery of water to household and industry;
- Allocation among sectors (municipal, industrial, agricultural) for sustainable growth, including the appropriate means of allocation (pricing or other); and
- Environmental policies affecting water quality and reuse, e.g., Zarqa River Basin and Wadi Musa Basin management, municipal wastewater treatment, and agricultural pesticides use.

A policy and planning unit at the MWI has been established, in close coordination between USAID and the German technical cooperation agency, to monitor the progress made in addressing these very sensitive public policy issues.

**Constraints.** The limited water resources of Jordan are insufficient to meet demand. This phenomenon makes effective management and allocation extremely critical. Accordingly, the regional exploration of new water resources and rational allocation of current resources are essential to overcome Jordan's water problem. Jordan's ability to mitigate its water problem will be facilitated by successful implementation of the peace agreement with Israel. Implementation is contingent on the construction of related new infrastructure.

## **STABILIZING WORLD POPULATION GROWTH (\$6,858,000 Development Assistance Fund).**

### **SO 3. Reduced Fertility (\$ 6,858,000 Development Assistance Fund).**

Jordan's 4.1 million population is one of the fastest growing populations in the world. Between 1980 and 1990, it grew from 2.13 million to 3.45 million. At that rate, Jordan's population can be expected to double in 16 years and this is a prospect the country can ill-afford.

**Activities.** In order to reduce fertility, USAID is focusing on (1) improving knowledge of effective contraception by increasing the number and types of method-specific educational and informational family planning materials and developing better information on health benefits derived from practicing effective family planning; (2) increasing the availability of family planning services by training physicians (providers of services) in the public and private sectors and expanding the number of clinics that provide these services; and (3) increasing the availability and affordability of family planning products by expanding the range of affordable, modern contraceptive products available in the market. Specific bilateral activities include: marketing of birth spacing methods; comprehensive postpartum services; and family health services. These activities will be sufficient to bring about an increased use of effective contraceptive methods.

**Indicators.** An annual decrease in total fertility from 5.6 children per family in 1990 to 4.18 by 1996 and to 3.6 by 1999 is sought.

**Feasibility and Cost-effectiveness.** The GOJ recognizes the negative consequences of population growth for the country's economic and social development. The government's Economic and Social Development Plan for 1993-1997 has called for "a population policy which endeavors to strike a balance between resources and population through designing and implementing family planning programs based on birth spacing." The Ministry of Health has issued guidelines to integrate family planning and birth-spacing services with ongoing primary health care services.

There is substantial unmet demand for family planning services in Jordan. According to the 1990 Jordan Population and Family Health Survey, 47% of currently married women want no more children and an additional 25% want to delay their next child birth for two years or more. This survey also shows that the use of modern contraceptive methods has increased from 17% in 1976 to 27% in 1990 and that total fertility has declined from 7.7 children to 5.6 children per family during the same period. The projected annual increase in contraceptive prevalence and decrease in total fertility reflects these trends and the demand for contraceptive services.

Progress in 1994. Over 200 physicians were trained in improved inter-uterine device (IUD) insertion techniques in 1994, raising the total number of trained physicians to 430 as of September 30, 1994; a comprehensive family planning counseling program was initiated during 1994 which has, to date, trained 266 counselors; a feasibility study of long-acting Norplant implants and injectable contraceptives has begun; and the GOJ recently approved a new comprehensive postpartum program designed to increase the availability of birth-spacing services in hospitals. This last item is particularly significant, since by signing the USAID post partum project agreement, the GOJ has committed to provide family planning services at government facilities, despite a constraining politico-religious environment. Provision of these services is important because counseling and services are not currently available in hospitals, where 80% of the babies in Jordan are born.

Constraints. Primary constraints to achieving the strategic objective are religious and political. On the religious side, family planning is a controversial issue throughout the Arab and Islamic worlds, including Jordan. On the political side, the openly pro-natalist policies of some of the neighboring countries make any vigorous government support for family planning programs difficult in Jordan.

### **Cross-Cutting Themes**

#### **BUILDING DEMOCRACY**

Governance and Democratic Pluralism: Jordan, one of the most progressive countries in the region, continues on the road toward full democratization and effective governance. Those shaping Jordan's democracy have set a very deliberate pace and USAID's activities in this sector are planned accordingly. Activities are programmed either as integral parts of existing strategic objectives or as responses to ad hoc requests for support of democracy building initiatives. The single biggest USAID activity was the provision in FY 1994 of an automated information and document management system for the Parliament to help it function more effectively. A few smaller activities were also recently completed, i.e., support for elections-related public opinion polling and a voter education campaign targeted at women.

USAID plans to explore ways to strengthen the role and impact of relevant institutions on policy formulation, implementation, and decision-making by municipal governments. Also, USAID plans to prepare a country governance and democratic needs assessment during FY 1995, and perhaps implement one or more pilot activities. The current country program strategy will serve as the framework for developing the governance and democracy plans.

Under the strategic objective for increased foreign exchange earnings from light industry, agribusiness and international visitors, the sector policy reform program and its companion technical support project are helping achieve public sector accountability by working with the GOJ to introduce transparent policies that enable the private sector to compete in foreign markets. The trade and investment portfolio aims at enabling private sector entrepreneurs and trade associations to take advantage of the improved policy environment by building their capabilities in financing, producing and competitive marketing. Additionally, USAID fosters active participation by micro and small business enterprises, local communities (many are rural or semi-rural), and indigenous non-governmental organizations (NGOs) in building a strong visitor industry in Jordan. A key objective of USAID's work in this industry is to ensure that the beneficiaries are the people in the communities where visitor interventions are implemented. The creation of jobs - many in areas of high unemployment - is an important dividend of our assistance, as is the concomitant economic empowerment of the population now out of the mainstream of Jordan's development.

Under the strategic objective for environmental protection, USAID works with the public sector, local industries, farmers' organizations, and NGOs representing the general public to introduce effective policies and practices in the municipal, industrial and agricultural sectors. Special emphasis is placed

on outreach to local communities, business associations, schools and even individual households to educate and organize them into advocates for necessary reforms. This pluralistic participation is essential to the achievement of improved quality and increased quantity of water available for use. The centerpiece of USAID's strategy to raise the profile of water conservation as a public policy issue is in the form of a grant to an indigenous NGO to conduct an intensive public awareness campaign.

Under the strategic objective for reduced fertility, the Comprehensive Postpartum Project, begun in late FY 1994, is aimed at bringing key indigenous family planning, health and population agencies together to create an environment and provide the resources needed to empower women with the knowledge and means with which to exercise control of the timing and number of children they bear.

Women in Development: Women in Development activities are fully integrated into, and are important parts of, each of the three strategic objectives. Family planning has the greatest benefit and impact on women. In addition, special consideration is given to women participant trainees in our training program, and many of the jobs created in expanded export industries are expected to be filled by women. Finally, research in the water sector suggests that water conservation efforts in rural and urban centers will depend upon the responsible behavior of women. Their role in water conservation offers women an opportunity to participate meaningfully in the development process, as well as to share more equitably in the resultant benefits.

A National Women's Committee to improve the status of women has been established by the GOJ. With assistance from USAID, the Committee developed a comprehensive strategy to improve the status, role, and participation of women in democratic and economic development processes. The strategy was recently approved by the Prime Minister for implementation by all government ministries and departments. USAID will contribute to the implementation of this strategy once specific action plans have been developed by the National Women's Committee.

## **MANAGING AND MONITORING POLICY REFORM**

Policy reform is an important means toward achieving two of USAID's three strategic objectives. Increasing foreign exchange earnings requires both trade and investment policy reforms. Improving water management and conservation requires MWI to adopt a water policy and management charter and then to implement the policy reform measures detailed in the plan. Better water management also involves a continuing dialogue with the government and other donors regarding cost recovery and pricing issues. While the GOJ has no official policy on fertility reduction, USAID monitors policy developments which could have indirect consequences for this strategic objective.

## **PROTECTING THE ENVIRONMENT**

Environmental concerns are important factors in our approach toward the achievement of each of the strategic objectives. Preserving water quality through industrial pollution prevention and wastewater treatment is Jordan's principal environmental task, and establishment of the Mission's Strategic Objective of improved quality and increased quantity of water available for use, reflects the priority of the issue. Environmental issues apply also to USAID's efforts to promote more cultural and environmental visitors while preserving the sites they visit from being degraded by their presence. Excessive population growth, if left unaddressed, also will have devastating impacts on Jordan's environment as well as its economy.

### **Other Donor Resource Flows.**

In 1994, the United States was the second largest donor, totalling about 13% of donor funding. Other leading donors are Japan, the World Bank and the European Union.

A collaborative approach with other donors and multilateral development institutions promotes the policy reform agenda. This is especially true under the strategic objectives for increased foreign exchange earnings from selected export industries and services; and improved quality and increased quantity of water available for use, where we can expect an effective synergism to continue as a result of USAID's coordination with the World Bank, IMF and other donors. We also have been instrumental in mobilizing other bilateral resources for Jordan. Parallel financing of the preservation of cultural sites has been implemented successfully between USAID, Italy and Germany. Germany and Canada also are actively helping Jordan address its water problems. The Germans have provided a loan to the Water Authority of Jordan (WAJ) for construction of a second siphon for conveyance of sewage to the As Samra wastewater treatment plant, which complements USAID's construction work at As-Samra. In addition, the Germans are assisting the policy and planning unit of the MWI. Canada is furnishing assistance in organizational development to WAJ, the Jordan Valley Authority, and MWI.

UNFPA has been providing approximately \$1 million a year for broad-based maternal/child health and family planning programs and the European Union has recently begun to support limited population awareness workshops. However, USAID remains the leading donor in an area that is vital to Jordan's long-term economic and political viability.

**JORDAN**  
**FY 1996 Program Summary**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
<b>1. Increased foreign exchange earnings from light industry, agribusiness, and international visitors.</b>						
Development Assistance Fund	1,000,000					1,000,000
Economic Support Fund	5,200,000					5,200,000
<b>2. Improve quality and increase the quantity of water available for use.</b>						
Economic Support Fund	2,000,000					2,000,000
<b>3. Reduced fertility.</b>						
Development Assistance Fund		6,858,000				6,858,000
DAF	1,000,000	6,858,000				7,858,000
ESF	<u>7,200,000</u>					<u>7,200,000</u>
<b>TOTAL</b>	<u>8,200,000</u>	<u>6,858,000</u>				<u>15,058,000</u>

USAID Mission Director: William T. Oliver

## LEBANON

<b>FY 1996 Development Assistance Fund Request</b> .....	<b>\$4,000,000</b>
<b>FY 1996 Economic Support Fund Request</b> .....	<b>\$4,000,000</b>

Lebanon, after 17 years of civil war and conflict in its border areas, is showing signs of political stability and economic recovery. U.S. humanitarian assistance supports PVOs and NGOs engaged in critical reconstruction and relief efforts, including housing and village infrastructure, jobs training, rehabilitation of war victims, and efforts to strengthen public administration, emergency medical services, and managerial and technical education. USAID assistance demonstrates the U.S.'s commitment to help the country recover and to take part in the evolving Middle East peace process.

### **The Development Challenge.**

The political instability and civil conflict that engulfed Lebanon since 1975 resulted in massive destruction of the country's infrastructure and economy (e.g. a 40% drop in industrial output) as well as marginalization of the government and public management systems. The strife caused massive suffering, flight, and increased impoverishment of the Lebanese people.

The end of the war in 1990 provided an opportunity for many Lebanese to return to their homes and villages and start rebuilding their lives. However, this return has been complicated by the reality that thousands of homes, villages and businesses were destroyed or severely damaged during the war. Electricity, water and telecommunications networks were destroyed, directly affecting 1.5 million people and cutting off potable and irrigation water. Government health care and education also suffered.

Speedy and efficient implementation of basic infrastructure and other rehabilitation and reconstruction efforts requires a greatly enhanced government management capability in key institutions and organizations, as well as a skilled cadre of managers and technicians. Additional efforts are needed to support administrative reform, upgrade management systems, and improve the local capacity to carry out training and education. As these elements are restored, new sustainable development efforts are more feasible.

### **Strategic Objectives.**

USAID has supported a relief and redevelopment program of humanitarian assistance to ameliorate some of the grave problems described above. The program has a two-year planning horizon rather than a multi-year strategic sustainable development plan until Lebanon's place in the peace process is resolved. The biennial plans are reviewed and amended annually. A number of initiatives that will support a transition to sustainable development for 1996 are planned for FY 1995. Within this framework USAID is funding the following types of activities: (1) community-level reconstruction and rehabilitation, (2) public administration improvements, and (3) strengthening U.S. educational institutions in Lebanon.

USAID focuses on these areas as a means to aid individuals to rebuild their lives and communities; assist in the reconstruction of infrastructure and public institutions; strengthen the capacity of the government to effectively manage its resources; and help build Lebanon's technical and managerial workforce through restoring the quality of education in U.S. educational institutions that operate in Lebanon.

## **HUMANITARIAN ASSISTANCE (\$4,000,000).**

### **SO 1. Community-level reconstruction and rehabilitation (\$4,000,000 Economic Support Fund).**

Activities: USAID is supporting a wide range of reconstruction and rehabilitation activities that are being implemented by six U.S. private and voluntary organizations (PVOs) and more than 30 Lebanese non-governmental organizations (NGOs). Activities include community-level reconstruction of Lebanese Red Cross facilities and strengthening of Red Cross capacity to deliver emergency and basic health services; reconstruction of homes, villages, roads and irrigation and potable water systems; technical assistance and training to enhance the capacity of Lebanese NGOs to deliver services; and procurement of critical medical supplies and equipment needed in Lebanese schools, hospitals and other public institutions. The FY 1996 program will continue to shift resources to strengthen the capacity of Lebanese NGOs to anticipate community needs and plan accordingly, to raise and manage funds, and thus to upgrade the quality and quantity of their services.

Indicators: Each subproject grant has targets related to the activities being pursued, such as numbers of homes rehabilitated, families assisted, water systems restored, or medical service units equipped and staff trained. In addition, the grantees apply selection criteria for communities and families who are assisted to assure that all religious groups and geographic areas are equitably served.

Feasibility and Cost-Effectiveness: The USPVOs work through Lebanese NGOs which have well-trained staff and operate effectively in Lebanon's complex social structure. The PVOs and their counterparts provide mutual support in certain locations to combine skills and resources to meet expressed community needs. In some instances, PVOs have been able to mobilize as much as \$3 of local contributions or resources from non-USAID sources for each \$1 of USAID funds.

Progress in 1993-1994: Significant progress was made in USAID's program in Lebanon during 1993 and 1994. U.S. PVOs provided relief, including medical services and reconstruction services or materials to individuals and families, including orphans, children and the handicapped. More than 300,000 Lebanese were benefitted directly. In addition, 50 infrastructure projects were completed and 2,000 displaced families were assisted in rebuilding their destroyed homes and returning to their villages.

Donor Coordination: The World Bank, the United Nations Development Program (UNDP) and a number of international private voluntary agencies are working in reconstruction. USAID's grantees have been able to combine resources and skills with other agencies, such as Dutch and Norwegian NGOs, to obtain results that exceed targets expected for housing and infrastructure repairs. USAID's grantee repairs the clinic building, while a European Red Cross agency provides the medicines, for example.

## **BUILDING DEMOCRACY (\$2,000,000).**

### **SO 2. Public administration improvements (\$2,000,000 Development Assistance).**

Activities: USAID supports public administration activities aimed at strengthening the capacity of the Lebanese government to recover from years of civil war. USAID targets its public administration efforts (chiefly training and installation of information systems) at key Lebanese government agencies and civil servants involved in the formation of public policy and establishing the overall quality of government operations. These, besides the Parliament, are the four central control agencies: the Civil Service Board, the Government Accounting Office, the Central Inspections Board, and the Central Disciplinary Board. Assistance for the National Institute for Administrative Development -- the Lebanese institution with primary responsibility for training public servants -- also is planned. In FY 1996 USAID will expand the reach and utility of the computer systems in the Parliament (including an automated voting system) and in control agencies will continue to help modernize and streamline



information systems as well as rules and procedures. A greatly expanded training program for senior and mid-level civil servants in management and technical skills will be in place, using both Lebanese and U.S. training or higher education resources. These individuals will be selected for training based on their key roles in economic recovery and administrative reform of the Government of Lebanon.

Indicators: Progress is measured presently by numbers of computer and information systems installed and their use by trained personnel to conduct business and make informed decisions in the targeted agencies. As the broader public administration training program is launched, indicators will include numbers of senior and mid-level managers with improved skills in human resource management, financial management, project management and monitoring, and related areas.

Feasibility and Cost-effectiveness: The program is supported by the Government of Lebanon at cabinet and operating levels. By working through the Lebanese and American educational institutions in-country, effective training and institutional strengthening programs can be carried out at reasonable cost.

Progress in 1993-1994: Computer systems are being installed in the Parliament and the four central agencies. Technicians and users have been trained. Procedures and systems are being streamlined. This activity, though still in a nascent stage, has been backed by the Minister for Administrative Reform, the Parliamentary leadership, and heads of the affected agencies. They plan to make the USAID program a model for all administrative reform being carried out by the Government of Lebanon.

Donor Coordination: In order to assure communication, complementarity and avoid duplication of efforts, USAID and its grantee works with the World Bank teams who are focused on the finance ministry and related agencies, and with the UNDP which is supporting the overall administrative reform effort. This is particularly important while establishing information systems and computer networks.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$2,000,000).**

### **SO 3. Strengthening of U.S. educational institutions (\$2,000,000 Development Assistance).**

USAID has provided substantial assistance to American institutions in Lebanon, most notably the American University of Beirut (AUB) and the Lebanese American University (LAU - formerly Beirut University College). The American universities are still recovering from the war years. They have and will continue to play a key role in providing technical and managerial leaders for Lebanon's economic recovery.

Activities: In FY 1995 and FY 1996 the universities will receive additional assistance to help them restore their top-quality educational, training, and research and development capacities.

Indicators: The effectiveness of this objective will be measured by the extent to which the universities are restructuring, equipping and staffing themselves to meet the needs of post-war Lebanon and a more peaceful Middle East region. More specific indicators will be identified that directly relate to USAID support for AUB and LAU.

Feasibility and Cost-effectiveness: Both universities maintain executive offices in New York and representatives in Washington who are accessible for program and policy dialogue. The universities are assessing their future roles, and are seeking support for specific strengthening activities which can be monitored through key performance indicators.

Progress in 1993-1994: The program objective of supporting U.S.-based educational institutions was not a priority in FY 1993 and 1994. However, limited USAID funds were used to rebuild damaged structures, to provide scholarships for low-income students of war-damaged families, to improve services at one of the university hospitals in support of war victims, and for general operating costs during the worst years of conflict when the universities were barely able to function.

USAID may not establish a full mission in Lebanon due to the security-related ban on US citizens' travel. The Lebanon program is managed by Asia and Near East Bureau staff in Washington and a small foreign service national team in the American Embassy in Beirut.

**Other Donor Resource Flows.**

In 1993 the United States provided 5% of all development assistance to Lebanon and was the sixth largest donor. United Nations Relief and Works Agency is the largest donor at 31%, and France is the second largest, providing 22% of donor assistance.

**LEBANON  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Humanitarian Assistance	Total
<b>USAID Strategic Objective</b>						
1. Reconstruction & Rehabilitation Econ. Support Fund					4,000,000	4,000,000
2. Public Admin. Improvements  Devel. Asst. Fund				2,000,000		2,000,000
3. Strengthen U.S. Educational Institutions  Devel. Asst. Fund	2,000,000					2,000,000
<b>TOTAL</b>	2,000,000			2,000,000	4,000,000	8,000,000

Director, Office of Middle East Affairs, Philip-Michael Gary

## MONGOLIA

**FY 1996 Development Assistance Fund Request . . . . . \$800,000**  
**FY 1996 Economic Support Fund Request . . . . . \$10,000,000**

In 1990, Mongolia broke with the Soviet Union after nearly 70 years of dependence. Without its \$900 million a year Soviet subsidy, Mongolia's economy collapsed. Gross national product declined 20% from 1989 to 1993. Mongolia has made significant progress in restructuring its government and economy and is ahead of most former Soviet republics that experienced similar economic calamities. While Mongolia's economic transition has not been smooth, the worst of the necessary economic contractions may be over. Mongolia must surmount many formidable hurdles before it can sustain its own growth. For this struggling democracy to survive, Mongolia needs broad-based economic growth. U.S. assistance to Mongolia supports U.S. interests by fostering a free-market economy and democracy.

### **The Development Challenge.**

Mongolia is a country of 1.565 million square kilometers (larger than Alaska) with some 2.2 million people in northeastern Asia, between China and Siberian Russia. Mongolia is sparsely populated but highly urbanized, with more than 50% of the population living in the country's three largest cities. While Mongolia may show a real gross domestic product growth of 2.5% in 1994 (up from a negative 1.3% in 1993) and an annual rate of inflation of 68% (down from 320% in 1993), the battle to achieve sustainable growth over the medium term still demands urgent attention. Despite the relaxation of price controls over the last 18 months, the prices of some products are still well below costs. Electricity tariffs, for example, are now half of those in most Asian countries. Similarly, housing rents are too low to compensate for even the maintenance work done by the Government owners.

USAID has many opportunities to support Mongolia's emerging market economy. At the Government of Mongolia's request, USAID works directly with the Vice Prime Minister's office to enable the Government to establish and implement sound, free market practices. This assistance helps the public and private sector institutions that will make Mongolia a free market economy.

Mongolia is now a fledgling democracy and large sections of the populace are committed to the concept of political pluralism. However, the concept of democracy and its practical implications are not well understood by the public. While many of the current political elite appear committed to democracy, portions of the old elite remain opposed. Thus, the future of democracy in Mongolia is not assured. USAID has trained all Mongolian judges in the country to apply new laws, promoting public participation in civic affairs, and encouraging the decentralization of government. As the restructuring of the political institutions and the economy continues, further training will be needed for judges, parliamentarians and other policy makers as they carry out their roles in the transition process.

Mongolia's growth is seriously hampered by the continuing energy crisis. The power plants and the coal mines are inadequately managed and maintained. They lack equipment, materials and trained personnel. Manufacturing and exports are crippled by the scarcity of electric power. Central heating services in the cities, essential for life in modern buildings during the severe winters, are reduced significantly and on the verge of collapse. USAID provides emergency assistance to prevent the worst system failures while more permanent solutions, requiring the major capital finance of the international development banks and other donors, are only now starting to take effect.

## **Strategic Objectives (SO):**

USAID seeks to achieve one strategic objective in the area of economic growth. The program includes additional democracy, energy and training activities which cut across sectoral boundaries to help achieve this strategic objective.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$10,800,000, of which \$10,000,000 is Economic Support Fund and \$800,000 is Development Assistance Fund).**

**SO 1. Strengthen the environment for market-oriented growth to encourage accelerated development of private small and medium enterprises. (\$10,800,000).**

Promoting the development of Mongolia's nascent private sector is USAID's most important support for a successful transition to a market economy. It is the key to the ultimate success and sustainability of the Mongolian economic restructuring effort. Failure of the private sector to deliver progressively stronger results during the crucial five-year period ahead will enormously increase the risk that Mongolia's economic and political reform efforts will fail. Accelerated private sector development will generate additional employment opportunities and increase the incomes of owners and workers. Successful performance will generate additional investment and employment which, in turn, will contribute to broad-based and sustainable economic growth. Consumers with increased disposable income will spend more, further stimulating the economy.

Activities. USAID will assist the Government of Mongolia to establish and implement sound, growth-oriented, market economic policies and practices. USAID will strengthen public and private sector institutions that will help sustain a market economy; provide technical advisory services to the Prime Minister's Office; provide technical training in the United States and third countries to the public and private sector; and lastly, provide academic training in the United States in the areas of banking and business development as well as assistance to the Mongolian legal profession and the Parliament. Other activities are designed to strengthen housing privatization and the construction industry.

USAID emergency assistance in FY 1993-95 limits the decline and helps avert collapse in vital energy services. Without more plentiful and affordable energy services, economic growth will be severely constrained. USAID technical assistance and training help improve system management. Emergency commodity support is a principal reason one of the two main power plants continued operation in the recent winters. USAID FY 1996 energy sector support will improve system management and operations and will help make efficient use of growing capital project investments from other donors.

USAID also supports democracy activities of U.S. private voluntary organizations, such as the Asia Foundation and the International Republican Institute. These organizations are working to support the stabilization of the Mongolian democratic process, which will help create an environment in which a free market economy can grow.

Indicators. USAID indicators for measuring progress toward achieving this objective are: (1) an increase in the number of new small and medium enterprises; (2) larger or more formal wholesaling of products; and (3) a more accessible and viable banking system.

Feasibility and Cost-effectiveness. The introduction of market reforms thus far has not led to greatly expanded economic activity that reform architects had hoped for, although there has been progress. The full impact of the reform initiative on business activity and employment has yet to be felt. The limited immediate benefits of economic reform, combined with severe shortages of consumer goods and power, have focused increased public attention on the reform process. Although the need for

reforms is generally accepted and viewed as inevitable, the pace and substance of reforms are a hotly debated issue. The reform process is intricately linked to the development of the private sector. An early private sector response will depend on how well the reforms are implemented.

Progress in 1993-1994. USAID had a variety of activities to encourage the development of the private sector. USAID helped the Mongolian Chamber of Commerce provide business services and advice to local and international entrepreneurs. USAID, through the Institute for Reform of the Informal Sector, provides training in public policy and economics for key decision makers, both within and outside government. The Mongolian Bankers Association, established with support from USAID, began to offer courses in a variety of commercial banking areas with the assistance of the Financial Services Volunteer Corps.

During FYs 1993-1994, USAID's emergency energy assistance delivered enough spare parts, equipment and materials to keep a vital power plant and coal mines from collapse. USAID's leading role in energy assistance helped mobilize other donors to similar efforts and to plan and initiate interim and long-term capital improvements which will eventually restore adequate energy services for Mongolia's sustainable economic growth.

USAID has supported the Mongolian democratization process by sending a group of political party officials to the United States to learn the role of political parties in a democratic society, and to learn about details of American political party operations. The group spent time with the National Democratic Institute for International Affairs and with the International Republican Institute while in the United States. The parties put their new knowledge into practice in preparing for the successful 1993 Presidential election in Mongolia. USAID also supports programs of the Asia Foundation and the Center for Institutional Reform and the Informal Sector which include: expanding the capabilities and professionalism of members of Parliament, their staff and the Parliament Secretariat; developing an independent judiciary; promoting legal education and training; establishing an independent bar association; promoting public participation in civic affairs; and encouraging the decentralization of government.

Donor Coordination. The International Monetary Fund, the World Bank and the Asian Development Bank, often acting in concert, have worked with the Government of Mongolia to accomplish many of the key reforms taken to date and to establish detailed policy agendas that will guide much of the reform program over the next three years. In addition, the World Bank and the Asian Development Bank are working on sectoral policy agendas, including transportation and energy--both critical to ensuring the success of the transition to a market economy and democratic government. As follow-on to USAID emergency energy assistance, other donors are now providing most energy sector commodity and renovation assistance. The World Bank will provide (in FY 1995) about \$30 million to the mining sector to ensure that the coal mines are producing and, thus, supplying energy to the urban economic areas. The Asian Development Bank will renovate Power Plant #3 (in FY 1995), using approximately \$40 million and will build roads from the mining areas to the urban areas. The Japanese are working on the rail system and renovating Power Plant #4, totaling about \$68 million (in FY 1995). Lastly, the Germans renovated the power plant in the second largest urban area.

Constraints. While starting to show signs of gradual improvement, the socioeconomic situation had significant setbacks in the initial phase of the reform process. Although this is largely because of the loss of Soviet aid and export markets and the disruption in Soviet import supplies, hardships identified with the reform process tend to discredit it. Mongolians are only beginning to learn what a market economy is and what is required to bring one about. Consequently, and to their credit, they are striving to gain the essential entrepreneurial skills, knowledge, and experience. The key institutions necessary to manage a market economy tend to be embryonic, malformed, or missing. The old habits and bureaucratic mind-sets are slowly dying but many remain, tending to undermine and subvert official market-oriented policy changes in insidious ways. Finally, despite USAID assistance and that of other donors in the energy sector, there is still significant potential for a major failure of the power

system, with its probable dire consequences for quality of life, disruption of the economy, and pressure on the reform movement.

**Other Donor Resource Flows.**

In 1993 Mongolia received \$126 million in overseas development assistance (ODA). The principal donors, who together contributed 80% of this ODA, were Japan, with \$57 million; the Asian Development Bank, with \$16 million; the International Monetary Fund, with \$13 million; Germany, with \$11 million; and the Netherlands, with \$4 million.

**MONGOLIA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democrac y	Providing Humanitaria n Assistance	Total
USAID Strategic Objectives						
1. Strengthen market-oriented growth to accelerate development of small and medium enterprises	10,800,000					10,800,000
Total			0			
Development Assistance Funds	800,000		0		0	800,000
Economic Support Funds	10,000,000	0	0	0		10,000,000

USAID Representative: Chuck Howell

## MOROCCO

**FY 1996 Development Assistance Fund Request . . . . . \$ 27,864,000**

The United States has significant economic and political interests in Morocco. Of strategic importance is Morocco's position as a moderate voice in the Arab world, a role model for economic and political moderation among Islamic nations, and a bulwark against anti-Western Islamic fundamentalism of the type now seen in neighboring Algeria. The United States relies on Moroccan support for the Middle East Peace Process and enforcement of United Nations (UN) sanctions against Iran, Iraq, and Libya. Increased U.S.-Moroccan trade, economic, and technical assistance have become important elements of U.S.-Moroccan relations as Morocco has begun turning increasingly to the United States to expand economic and trade ties. Overall, Morocco espouses and overtly seeks to follow the United States in many aspects of its social and economic development.

### **The Development Challenge.**

Threats to Morocco's stability easily could jeopardize the country's ability to maintain its pro-U.S. foreign policy orientation and its important role as a model of Islamic moderation and cooperation. Unemployment and lack of access to housing, land, credit, and other productive resources remain chief causes of poverty and major contributors to social instability. These factors are creating a pool of disaffected educated youth, easily attracted to extremist appeals. Poverty and illiteracy remain extensive. Large family sizes further strain meager incomes. Increasing natural resource degradation and industrial, urban and agricultural pollution pose threats to the productive base of the economy, to ecosystems and to the support they provide for maintenance of human health and economic productivity.

Morocco's image as a modern, developing society is a veneer which masks a disquieting reality. Social indicators place Morocco among the lower-income countries of the world: (1) life expectancy is estimated at 63 years, compared to 62 years for low-income countries; (2) infant mortality, at 57 per thousand, compares to 73 for low-income countries and 43 for lower-middle income countries; (3) an annual population growth rate of 2.4% doubles the country's population in approximately 29 years; (4) a combined literacy rate (for both men and women) of 42% compares to 60% for low income countries, with an appalling 70% illiteracy rate for Moroccan adult females; (5) an estimated 5.6 million people (20% of the population) live at or near the poverty level, with heavy concentration of the poor in rural areas; and (6) nearly 20% of the labor force is unemployed.

Economic problems include: (1) sporadic growth in the economy averaging 2.7% over the last 13 years, compared to a 2.4% annual population growth rate over the same period; (2) economic growth heavily dependent upon rainfall, with drought-induced negative gross domestic product (GDP) growth in 1992 and 1993, and a near-certainty for 1995; and (3) a labor force growing at a faster rate than the economy can generate productive employment opportunities to absorb new entrants. In addition, an inhospitable policy and regulatory framework impedes individual initiative. Businesses and civic associations remain difficult to register, credit is inaccessible to the majority of the population, and inefficient markets and pricing distortions impede rational growth and misallocate resources.

### **Strategic Objectives (SOs)**

USAID's new strategic plan focuses on Morocco's fundamental development problems through three strategic objectives (SOs): (1) to improve the health of women of child-bearing age and children under five; (2) to promote a healthier environment and the sustainable use of Morocco's scarce natural resources; and (3) to expand the base of stakeholders in the economy.

## **STABILIZING POPULATION GROWTH (\$9,600,000)**

**SO 1. To improve the health of women of child-bearing age and children under five (\$11,015,000, of which \$9,600,000 is attributed to Stabilizing Population Growth and \$1,415,000 is attributed to Encouraging Economic Growth).**

Fertility must be reduced for Morocco to achieve its overall development objectives of broad-based and sustainable economic growth, improved natural resources management, an acceptable quality of life for a majority of Moroccans, and social and political stability. Improved and sustained family planning (FP) and maternal and child health (MCH) programs are critical to reduce future demand for limited resources. Conversely, population and health objectives cannot be met without economic growth and a healthy environment.

Activities. Population and health sector activities seek to provide more people with greater access to improved health care. The program combines support to improve country-wide operational activities with a strong advocacy and policy dialogue component. USAID assists the Government of Morocco (GOM) in the training of health-care workers, decentralizing health-care services, and providing clinical commodities, including contraceptives, equipment and vehicles, as well as technical assistance to improve preventive services. Each year, the GOM contributes a higher percentage of operating costs to support these activities.

Related Activities. Health and smaller family size are directly related to education, especially female education. USAID has initiated discussions with the Ministry of Education to expand basic education, especially for rural girls. Good health depends on a clean environment, which USAID addresses through reducing urban environmental pollution under its housing program, and supporting non-polluting industrial infrastructure through a clean technology program with Moroccan industry. USAID's activities in economic growth lead to increased employment with better-paying jobs, which is related to enhanced access to health care and reduced family size.

Indicators. Priority indicators for measuring progress toward achieving this objective for the 1992-1997 program period are: (1) decrease in the total fertility rate from 4.2 to 3.7; (2) decrease in the infant mortality rate from 57 to 50 per thousand births; (3) decrease in the child mortality rate from 20 to 17 per thousand; (4) increase in the contraceptive prevalence rate from 41.5% to 54.0%; (5) increase in the percentage of pregnant women receiving qualified prenatal care from 32% to 54%; and (6) increase in the proportion of family planning and maternal and child health operating costs financed by the GOM, including contraceptives, from 40% to 68%.

Feasibility and Cost-Effectiveness. USAID and the Ministry of Public Health (MOPH) share mutual preventive health objectives, including a priority on integrated, decentralized sustainable family planning and maternal and child health services. Programs target the key causes of maternal and child mortality; assist Morocco to become more self-sufficient in health care delivery; and promote policy reforms to encourage resulting in increased GOM financing and maximum private sector involvement.

Progress in FY 1993-1994. Achievements in 1993 and 1994 included the following: (1) couple-years of protection provided by the public and private sector programs exceeded 1,000,000, substantially surpassing program targets; (2) the number of childhood diarrhea cases treated in public facilities increased by 54%, while the number of serious cases treated declined by 20%, indicating improved access to services and prompt, efficient treatment; and (3) the Ministry of Public Health initiated the first GOM-financed contraceptive purchase.

Donor Coordination. As the acknowledged lead technical and financial foreign donor in the family planning and maternal and child health areas, USAID works closely with all other donors to ensure coordinated strategy development and implementation. USAID and the United Nations Children's Fund (UNICEF) jointly sponsored and financed an initiative, which led to development of a sustainable, GOM-



financed vaccine procurement system. This system supports the national program, which immunizes 76% of Morocco's children. USAID coordinates its planned assistance to childhood diarrheal disease programs with UNICEF, long the leader in this area. USAID collaborates with the United Nations Fund for Population Assistance (UNFPA) in the procurement of computers and special demographic data analyses. The European Union is assuming an increasingly significant role in the sector, coordinating closely with USAID on its safe motherhood program. The World Health Organization (WHO) contributes assistance complementing USAID interventions in human immunodeficiency virus (HIV) infections, sexually-transmitted diseases, public health training, communicable diseases and epidemiology.

**Constraints.** Despite impressive progress, the national population is currently growing at nearly 2.4% a year, which means a doubling in 29 years. As more women are entering their reproductive years, sustaining and expanding current rates of contraceptive prevalence and family planning and maternal and child health utilization will necessitate serving more clients at existing delivery points, while simultaneously extending family planning and maternal and child health services to a larger segment of the population. Significant unmet demand for these services already exists. Additional demand for smaller families will reduce the disparity in basic education between boys and girls, increase employment opportunities for women and improve women's human rights.

#### **PROTECTING THE ENVIRONMENT (\$5,624,000)**

**SO 2. To promote a healthier environment and the sustainable use of Morocco's scarce natural resources (\$5,624,000).**

USAID currently is in the process of restructuring its portfolio in Morocco to bring a new focus to its environmental program. We have identified resource management, pollution prevention, and mitigation requirements as the key strategic environmental needs to address. These weaknesses are a threat not only to Morocco's environment but also to its economy, and to overall public health. The current drought in Morocco illustrates a fundamental problem which is expected to get worse: the lack of sufficient quantities of acceptable quality water for agricultural, industrial and household uses. Other threatened resources include soil and air, each being affected by, and in turn, affecting, rural, urban and industrial systems.

**Activities.** USAID will approach these problems from three perspectives: (1) improving policy, regulatory and institutional frameworks; (2) promoting adoption of improved environmental practices; and (3) enhancing environmental awareness and community participation. USAID-supported environmental activities currently target resource management improvements, pollution prevention, mitigation efforts in irrigation systems, improvements in energy efficiency and pollution prevention in industry, and the provision of environmental services and infrastructure -- including potable water and sewerage systems -- in urban areas. USAID is also working with the GOM to develop a transparent and enforceable environmental regulatory framework which combines government oversight with incentives for adoption by the private sector of pollution prevention technologies. During 1995, USAID will determine whether Morocco will be designated a pilot country under the proposed Enhanced Credit Program (ECP), to allow investment in wastewater treatment for the city of Tetouan, the site of major urban upgrading efforts under a previous USAID Housing Guaranty Program.

**Related Activities.** USAID's family planning program is a crucial element in reducing population pressure on the environment. Community organization and dialogue with local government to resolve neighborhood environmental problems (such as garbage collection, sewerage provision) promote governance and democracy objectives. Economic growth activities under SO 3 support the development of several new environmental industries which provide, for example, integrated pest management services to reduce the use of pesticides, and to increase recycled and recyclable packaging.

Indicators. Environmental indicators include: (1) creating a policy and regulatory framework for the prudent and efficient management of water resources; (2) developing enforceable standards of industrial energy use; (3) developing a legal framework for pollution prevention; (4) creating increased national and local capacity to assess and respond to urban environmental issues; (5) broadening the market for environmental service technology, equipment, and expertise; (6) improving energy efficiency and reducing carbon, sulfur, nitrate and other toxic emissions; (7) reducing the percentage of poor, urban families living in areas without access to sanitary waste removal (sewers and garbage) and potable water systems; (8) building local government capacity to address environmental needs in a collaborative manner with stakeholders; and 9) strengthening local environmental nongovernmental organizations (NGOs) and other self-help groups to become stronger advocates and implement environmental activities.

Feasibility and Cost-effectiveness. The recent establishment of the Under Secretariat of Environment as a semi-autonomous, cabinet-level environmental agency is strong evidence that the GOM is giving priority to environmental issues. Similarly, the private sector, driven in part by external market demands and other economic incentives, is open to energy efficiency and pollution prevention measures. With the prospects of significant water shortages in the next century, the GOM is seeking to improve water use management. USAID anticipates rates of return on improved water management activities, even higher than those currently achieved under a \$9 million energy demand management project. This project currently saves \$7.1 million annually in fuel import and energy costs alone, while at the same time reducing greenhouse gas and other toxic emissions.

Progress in 1993-1994. In 1993 and 1994, USAID provided improved housing with access to sanitary waste removal and potable water systems for at least 100,000 below-median income families; finished four major action-oriented studies which will be the basis for improving water use efficiency in the Tadla irrigation perimeter; and reduced sulfur dioxide by 420 tons, nitrous oxide emissions by 600 tons, and carbon dioxide emissions by 138,000 tons through implementing recommendations contained in USAID-funded energy audits.

Donor Coordination. Environmental work is relatively new in Morocco and has been significantly driven by donor interest. USAID strives to cooperate fully with all donors in the field. USAID played a crucial catalytic role in the World Bank's \$6 million loan to Morocco to strengthen the Under Secretariat of Environment, by funding the initial feasibility study. This study subsequently led the United Nations, through United Nations Development Program and United Nations Educational Scientific and Cultural Organization, to provide seed funding for a new National Laboratory and Environmental Institute, which has just been inaugurated. USAID cooperates with the World Bank on urban and agricultural water issues and its extensive work in urban areas has provided baseline information for the development of a World Bank project for wastewater treatment in six cities. The World Bank and the GOM expect USAID's resources management project in Tadla to provide the water system management models for their \$350 million irrigation project.

Constraints. The crucial issue is the absence of a transparent and binding policy and regulatory framework. Although environmental issues are becoming more important to Morocco, GOM funding for the Under Secretariat of Environment, the locus of environmental activities in the Government, is still inadequate. The Under Secretariat of Environment must continue to develop its human resources and must receive an appropriate level of budgetary support for its operations. Personnel must be assigned for reasonable lengths of time to allow development of expertise and institutional capacity. The lack of public awareness of problems and their solutions currently means slow progress at best. A history of central control, particularly in water management, makes it difficult for local organizations and groups to make decisions and take actions in this area. Morocco also is deficient in basic infrastructure for urban environmental mitigation, such as wastewater treatment.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$11,350,000)**

### **SO 3. To expand the base of stakeholders in the economy (\$8,235,000).**

Economic growth is the critical factor for the success of most aspects of USAID's overall program strategy. Broad-based, accelerated growth is required to expand the base of stakeholders in order to include those currently marginalized from the system due to lack of productive employment opportunities or access to resources such as land or capital. USAID has targeted the following program outcomes to expand the base of stakeholders: (1) an enabling policy and regulatory environment for the creation and expansion of micro- and small enterprises and the generation of employment; (2) broadened access to financial resources and services; and (3) strengthened and efficient markets to provide competitively priced goods and services.

**Activities.** The major new focus in FYs 1995-1996 is microenterprise development, which will expand sustainable employment and income opportunities for the lower 40% of Morocco's population. USAID will support microenterprises through a program of formal, institutionalized and financially-sustainable micro-credit. USAID will focus on economic policy reform, building on current activities implemented through the New Enterprise Development Project. Policy reform activities will consolidate the structural adjustment gains made to date and expand economic liberalization, especially in areas which constrain competition and the participation of financial and commercial markets. USAID will support the agribusiness sector, which offers employment for unskilled poor women in rural and urban areas. Support for technology transfer will make business more competitive both domestically and externally, and provide more secure jobs and higher incomes to the poor. Private sector training will provide state-of-the-art U.S. management techniques for firms of all sizes.

**Related Activities.** Assistance in policy analysis and development contributes to a liberalized legal and regulatory environment; clean technology and energy audits promote efficiency and lower private sector production costs while reducing environmental damage; population and health activities enhance overall health and worker productivity, and reduce the future demand for public services; and training increases women's participation in a growing economy.

**Indicators.** Performance indicators over the period 1995-2000 include: (1) increased industrial employment; (2) an increase of up to 40% in business licenses issued to first-time small business-owners, specifically female business owners; (3) 50,000 new shareholders or employee stock owners in privatized firms; (4) simplified business registration and operation procedures; (5) 5,000 micro-loans yearly averaging \$300; and (6) improved quality of agribusiness products.

**Feasibility and Cost-effectiveness.** The feasibility of achieving USAID's economic growth objectives is enhanced by USAID's past efforts with the private sector, the GOM and other donors. The GOM is committed to policy reforms, as demonstrated by the country's performance under phase one structural adjustment which led to higher economic growth from 1986-90. However, difficult choices remain, and the GOM needs to stay the course with its reform agenda under phase two structural adjustment if the country hopes to achieve sustained economic growth. Experience and contacts in business development activities provide a framework which allows USAID to optimize the use of additional resources and to assure in the sustainability of economic growth activities.

**Progress in 1993-1994.** USAID activities in 1993 and 1994 have helped the GOM to reduce barriers and decrease market segmentation between the large, formal, modern sector and the small enterprise and informal sector; created and expanded micro-, small- and medium-sized enterprises; improved access to credit; provided direct and indirect assistance to Moroccan producers and exporters; improved the regulatory and policy framework by decreasing the red tape for business start-ups; begun the development of transparent regulations and incentives for economic growth; and helped to reduce protectionist policies. This assistance has increased jobs across the board, often for the poorest men

and women in Morocco. In the past 18 months, the GOM has privatized 22 firms; increased firm-level efficiency; increased GOM revenues for social services by approximately \$527 million; and broadened share ownership from 5,000 to 50,000 shareholders in privatized firms.

**Donor Coordination.** USAID's new microenterprise finance project in Morocco is coordinated with Catholic Relief Services (CRS), the only other donor organization engaged in micro-credit. The World Bank is currently exploring means to support microenterprise in the context of the overall financial sector reforms, and USAID will coordinate closely on the opportunities for joint efforts. Additionally, through the National Endowment for Democracy (NED) project, donors have agreed to set up a clearinghouse of information on donor activities and financial support to business and self-help associations. USAID meets regularly with the World Bank, France, and other bilateral donors to coordinate efforts supporting policy reform.

**Constraints.** There continue to be policy and institutional constraints to full economic liberalization, such as tariff regulations, quantitative restrictions, and general over-regulation, generating unnecessary costs and administrative burdens for businesses. Administrative procedures required to start a business lack clarity, and to some extent are still arbitrarily administered. Almost 40% of new entrepreneurs are unable to obtain a business license without professional assistance or resorting to bribery. Many choose either to operate in the informal sector or to withdraw from the entrepreneurial track completely. While progress has been made, access to financial resources and services remains a barrier to a broadened economic system, especially for microenterprises. Further development of the Moroccan economy depends upon expansion of external trade to provide foreign currency needed for the purchase of required industrial and food imports.

## **CROSS-CUTTING ISSUES**

USAID addresses two cross-cutting issues, democracy and human resource development, which complement our strategic approach in Morocco. Both are new to the existing portfolio, but are highly consistent with the latest Agency priorities and respond to real opportunities in today's rapidly changing Morocco. (1) USAID is working closely with Parliament, the Ministry of Human Rights, and Moroccan and U.S. NGOs to develop a democracy strategy; and (2) USAID is working closely with the GOM on fast-breaking national educational reform to remove key development constraints in basic education programs.

### **Building Democracy (\$1,290,000)**

USAID's democracy and governance program will focus on strengthening Parliament to carry out its role in a more transparent, competent and participatory manner. Strengthening local government capacity is a complementary element of the democracy program. Support to private elements of civic society, such as NGOs and select associations, will be carefully targeted to build capacity, expand grass-roots participation, and promote equity in social and economic development. Funds will be used for parliamentary visits to the United States, training, seminars, workshops, limited operational support and technical assistance.

### **Basic Education (\$1,700,000)**

Human capacity development constitutes an integral ingredient for attaining all USAID objectives. USAID supports basic and girls' education and operates a training program to build human capacity in each of its strategic areas. In the first instance, USAID will support educational reforms which expand and improve primary and secondary education. Specific interventions may include developing new basic education curricula; introducing new instructional materials; improving skills of teachers and school administrators; exploring new educational technologies; supporting limited operational research on improving educational retention rates (particularly for girls); and promoting literacy training for adolescents and young women. Secondly, the Training For Development Project is being amended in

adolescents and young women. Secondly, the Training For Development Project is being amended in 1995 to strengthen human capacity-building within each strategic area. The amended activity will provide support for both short- and long-term training (U.S. and in-country) in environment, health, population, basic education, democracy and economic growth. Appropriate linkages will be developed between U.S. organizations, institutions or centers of excellence, and Moroccan institutions. In this manner, the human resource development needed to accomplish USAID strategic objectives will be accomplished, while at the same time, indigenous human capacity development abilities within Morocco will be enhanced.

**Other Donor Resource Flows.** In FY 1993, the United States provided approximately 5% of donor assistance to Morocco. Significant resources are provided by the World Bank, the European Union, the United Nations, France, Spain, Germany and other European and Arab countries.

**MOROCCO  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. To improve the health of children under 5 and women of child bearing age	1,415,000	9,600,000			11,015,000
2. To promote the sustainable use of Morocco's scarce natural resources and a healthy environment			5,624,000		5,624,000
3. Expanded Base of Stakeholders in the Economy	8,235,000				8,235,000
Cross-cutting Issues:					
Democracy/Participation				1,290,000	1,290,000
Basic Education	1,700,000				1,700,000
<b>Total</b>	<b>11,350,000</b>	<b>9,600,000</b>	<b>5,624,000</b>	<b>1,290,000</b>	<b>27,864,000</b>

USAID Mission Director: Michael Farbman

## NEPAL

**FY 1996 Development Assistance Fund Request . . . . . \$27,314,000**

Nepal is the seventh poorest country in the world with an average per capita income of \$210. The people of this four-year-old democracy voted a minority, socialist government into power in a general election held in November 1994. The peaceful transfer of government spoke well for the institutionalization of the democratic process; however, there is a growing perception that democracy does not automatically bring about immediate, dramatic economic improvements. Prior to 1990, the economy was geared to perpetuating the previous political order, rather than promoting national development and growth. During the past four years, the Government of Nepal (GON) made important advances in economic liberalization, in strengthening democratic principles at national and local levels, in formulating a sustainable agricultural growth strategy and in establishing an increasingly effective capacity to respond to the high demand for family planning services. Continued and visible income growth is not only necessary to alleviate Nepal's poverty, but is essential for the success of Nepal's experiment in democracy. USAID's assistance, while only four percent of the total international aid package for Nepal, represents major support for U.S. interests in free-market development, the promotion of participation in a democratic society, and the stabilization of world population growth.

### **The Development Challenge**

An estimated 49% of the population of Nepal lives in absolute poverty, using currently accepted standards; another 20% live just above that level. Agricultural production accounts for more than 42% of the gross domestic product (GDP) and employs approximately 80% of the population. Only 30% of the land is arable. Slow growth in the agricultural sector (3%) during the 1970s and 1980s limited possibilities for beneficial effects on the rest of the economy. Consequently, growth in Nepal's non-agricultural sectors also remained low and was restricted to enclaves such as carpet or garment production. The sluggish economy inhibited employment growth and further exacerbated poverty levels. The current population growth rate (2.5%) will cause a doubling of Nepal's current population (19.2 million) in only 28 years. There have been successes in increasing the contraceptive prevalence rate, currently 24%. However, there are wide geographic variations, with the rate going as low as 3% in some regions. Maternal mortality is among the highest in the world, and Nepal is one of the few countries in the world in which the life expectancy for females (52 years) is lower than that of males. Rapid population growth has placed an enormous burden on the environment, economy, health care and other services. Nepal's overall literacy rate of 38% (18%-20% for women) is still far below the South Asian target of 65% by the year 2000. The interactions among a limited national resource base, rapid population growth, environmental degradation, low levels of social development, and widespread poverty present a formidable challenge for Nepal.

Finally, the uncertainty surrounding the course the new government will take is a constraint to USAID assistance. Their economic policies are unclear, as is the extent to which they will pursue their predecessor's promising economic strategy. The new GON has actively sought to assure a continuation of the USAID partnership. GON-announced commitments indicate that a serious effort toward decentralization will be made. Initial plans to move resources and services from the central to the village level, to simplify taxes and to make all government operations transparent appear to advance rather than constrain USAID's economic growth strategy, but not if these actions are accompanied by the imposition of protective tariffs, price subsidies and controls, a return to state ownership, or a slowing of natural resource transfers to community-based user groups.

## **Strategic Objectives (SOs)**

USAID is pursuing the following three strategic objectives in Nepal. The program supports the objectives with cross-cutting activities in training (particularly women), in strengthening nongovernmental organizations (NGOs) and user groups, and in protecting and sustainably utilizing the environment.

### **STABILIZING POPULATION GROWTH.(\$13,130,000)**

#### **SO 1. Reduce total fertility rate (\$13,141,000, of which \$12,730,000 is for Stabilizing Population Growth and \$411,000 is for Economic Growth)**

Although modern contraceptive use in Nepal has risen steadily from 3% in 1976 to over 24% in 1991-92, the total fertility rate, or live births per women, is 5.6%. Therefore the population growth rate, estimated to be 2.5% in 1994, remains dangerously high, as does the related infant mortality and maternal mortality rates. Mean desired family size has declined from 4.0 to 3.1 children since 1976, and the unmet demand for family planning is high, as evidenced by the findings of the 1991-92 Nepal fertility, family planning and health survey.

Activities. The child survival and family planning program focuses on increasing access to, availability, and quality of family planning and reproductive health services. USAID's partnership with the Ministry of Health will establish year-round family planning and reproductive health services in 22 district hospitals, will strengthen a network of trained female community health volunteers, and will improve in-service reproductive health training curricula for doctors, nurses and paramedics. USAID's private sector partnerships provide services through a contraceptive retail sales company and private medical practitioners, and support NGOs providing community-based health and family planning services. NGO support, through the private voluntary organization (PVO) co-financing project expands the availability of services through flexible, responsive NGO networks and delivers complementary basic literacy programs to women which incorporate health, family planning, nutrition and income generation training.

Related Activities. The child survival and family planning program supports efforts to increase child survival by improving diarrhea disease case-management, early diagnosis and treatment of childhood pneumonia and the vitamin A status of children under 60 months and pregnant women. Vitamin A rich foods will be introduced into high-value crops activities. USAID is supporting the reduction of sexually transmitted diseases (STDs) to combat human immunodeficiency virus (HIV) and acquired immunodeficiency syndrome (AIDS) and to improve overall reproductive health.

Indicators. The indicators and targets for measuring progress toward achieving the objective are: (1) decrease total fertility rate nationwide from 5.7% in 1990 to 5.2% in 1997; and (2) increase total contraceptive prevalence rate nationwide from 24% in 1991 to 32% in 1997.

Feasibility and Cost-effectiveness. Fertility reduction appears to have begun in Nepal. Desired family size among married women of reproductive age is declining, and demand for services to limit births is high. For the majority of women, however, service outlets are at a minimum one hour or more away, and as far as several days walk. The challenge to the program is to expand the accessibility of good quality services on a regular basis to meet increasing demand. The cost of putting into place a delivery system of reliable quality services is small when compared with the costs computer modeling show would be incurred if the current fertility rate is not reduced. Necessary public expenditures will not be met, increases in agriculture production will be out-stripped, and environmental degradation will continue. In Nepal, reduction of fertility rate must accompany accelerated economic growth.

Progress in 1993-1994. National level, quantifiable results against indicators cannot be collected on a yearly basis. Progress against gross indicators for this period will be available from the demographic

health survey to be done in 1995-96. Major progress was made in strengthening the Ministry of Health by completing an in-service reproductive health and family planning training curricula for doctors, nurses and health post paramedic staff. The Ministry's management of procurement and logistics for service delivery, distribution and warehousing was examined and new systems were developed and are being field tested. Revision of the national curriculum for female community health volunteers was completed. Four new community-based health and family planning programs were started in remote or underserved areas.

Donor Coordination. USAID is a leader in the health, family planning and HIV/AIDS donor coordination groups which meet regularly with the Ministry of Health and each other. USAID and the United Nations Fund for Population Assistance (UNFPA) coordinate on the provision of contraceptive commodities and support to service delivery. USAID coordinates with the United Nations Children's Fund (UNICEF) to support the national diarrheal disease control, vitamin A and acute respiratory infections programs.

Constraints. The key constraints in the sector lie with the GON. Frequent transfers of Ministry staff make providing quality services difficult and unreliable. Health workers are reluctant to serve in Nepal's more remote, underserved areas. NGOs are beginning to fill this void, albeit slowly. Finally, the sector is heavily dependent on donor funding. Without rapid economic growth, there is little hope that the GON will be able to invest more in the sector.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$9,549,000)**

**SO 2. Increased broad-based sustainable income growth for rural families (\$12,021,000, of which \$8,638,000 is for Economic Growth; \$400,000 is for Stabilizing Population Growth and \$2,983,000 is for Protecting the Environment)**

Substantial progress can be made in reducing poverty levels and increasing income growth by promoting an agriculture-led, market-based economy in rural Nepal. Agricultural growth is necessary to increase family incomes, insure greater levels of food security, improve the sustainable management of the productive resource base and contribute to growth in non-agricultural sectors of the economy. Greater growth requires strengthening of the legislative and economic policy framework and a focused set of investment priorities in the agriculture sector. The GON's recent completion of a comprehensive agriculture growth strategy and plan presents a clear set of policy and investment priorities to achieve a sustainable 5% annual rate of agricultural growth while improving the management of the productive resource base. USAID, by supporting key elements of this program, can have a direct effect on rural incomes on a national level through policy reform and, in project areas, can significantly increase family incomes.

Activities: USAID's economic liberalization program supports expansion of private investment, the liberalization of regulations inhibiting the establishment of businesses; the availability of non-subsidized credit, tax reform, and expanding rural-based microenterprises. USAID also supports increased rural household income through sustainable private agriculture and forestry enterprises. Closely monitored activities support increased private sales of cash crops and products, increased community and private control and sustainable management of natural resources, and the enactment and implementation of necessary agricultural and natural resources policies.

Related Activities: Acceleration of the production of high-value agriculture commodities (fruits and vegetables) in targeted program areas have significantly increased incomes. USAID will expand the geographic program area and incorporate a micronutrient (vitamin A) component into the commodity mix. This cash crop effort will increase the nutritional level of growers and consumers. Community-based groups, experiencing income increases from the sale of high-value crops, are becoming conduits for expanding literacy, democratic participation, and health and family planning in support of USAID's other strategic objectives.



**Indicators:** USAID indicators and targets for measuring progress toward achieving this objective are to: (1) increase average rural household income in the Rapti Zone from \$142 in 1989 to \$220 in 1995; (2) increase hectares (ha.) of forest land transferred to community and private management from 70,000 ha. in 1991 to 200,000 ha. in 1995; (3) achieve 15% growth in new business registrations, with 20% growth in small and micro-enterprise registrations; (4) achieve 10% real growth in exports of hand-made paper and jewelry with a 20% increase in exports of hand-made carpets to North America (all specific USAID interventions); and (5) achieve 4% real economic growth in GDP and 4% in agricultural growth.

**Feasibility and Cost-effectiveness.** Increased growth in cereals and cash crops since the inception of democracy led to a higher overall GDP. USAID assisted in the acceleration of growth by supporting the GON's adoption of economic liberalization and a legislative package for transferring management of local resources to local communities and user groups. The proposed investment priorities developed in the National Planning Commission's agriculture prospective plan actually indicate that the total level of public sector investments for the next five years can be lowered if priorities are adhered to and an expanded role for private investment achieved. USAID's strategy and past experience position the United States to be a major supporter in helping the GON stay focused on the key elements of a well-reasoned and substantiated plan to quickly accelerate agricultural growth and increase private investments, particularly in agriculture and forest-related businesses.

**Progress in 1993-1994.** USAID's economic liberalization and agriculture activities contributed to new legislation for liberalizing the economy, the transfer of natural resource management to community-based groups, and to Nepal's best economic performance in a decade: GDP growth rates of 7.8% and 7.0%, respectively, for the general economy and for the agriculture sector. Sales of cash crops in the program affected areas increased by 20% for the fifth year in a row, and the transfer of management of GON forests to community user groups is 11% (47,000 ha.) compared to a national average of 3%. In areas where USAID has assisted in the turnover of state-managed irrigation systems to water user associations (15,000 ha.), agriculture production has doubled in the past year. The management transfer model has been incorporated in new irrigation schemes supported by the World Bank and the Asian Development Bank (ADB).

With USAID assistance, new legislation has been enacted to encourage private and foreign investment in the hydro-energy sector. Implementation of new legislation to transfer ownership and management of community forests and irrigation systems is accelerating. With USAID's assistance, the GON continued privatization (four enterprises), tax reform (implementation of a value-added tax is scheduled for mid-1995) and opening of business and financial markets (four new banks, ten new finance companies, fourfold increase in turnover at the Nepal Stock Exchange, and two sustainable Grameen-clones established). The GON began work on new liberalized economic laws (company, contract, anti-monopoly and consumer protection).

**Donor Coordination.** The National Planning Commission's agriculture plan was formulated with assistance from the World Bank, Asian Development Bank, USAID, and the Food and Agriculture Organization. The plan provides a strategic framework for GON and donors. Work on the agriculture plan has required close donor coordination. Concerted donor efforts will be necessary to help the GON stay focused on the key growth areas and to ensure that donors pursue supporting programs. The donors involved in economic liberalization---USAID, World Bank, Asian Development Bank, International Monetary Fund, United Nations Development Program, Germany and Finland--regularly meet and coordinate work on structural adjustment and program and project conditionality.

**Constraints.** An agriculturally-based, market-oriented growth strategy focuses on private sector approaches to develop Nepal's economic, energy, environment and rural sectors. This approach represents a radical departure from the pre-1990 GON-dominated economy. Gains made in the past four years might be fragile. Political disputes and uncertainties in 1994 influenced public thinking, overshadowed real economic growth, and led to early elections. The change of government has

slowed progress in the implementation of the GON's economic liberalization program, and the commitment of the new government to economic liberalization is uncertain. In agriculture, potential for national level, large-scale growth remains heavily dependent on the monsoons. If the success in increasing rural incomes achieved in USAID-affected areas is to be replicated on a national scale by the GON, the excellent surface and groundwater resources of Nepal will have to be tapped. Current schemes do not meet the need.

#### **BUILDING DEMOCRACY (\$1,652,000)**

**SO 3. Increased women and men's participation in a democratically governed civil society (\$2,152,000, of which \$1,652,000 is for Building Democracy and \$500,000 is for Economic Growth)**

During the past four years, Nepal has changed from a feudal monarchy to a multi-party democracy. The formation of democratic institutions (parliament, judiciary and local government), two general elections, one local election and the peaceful transfer of power from one party to their strong opposition give reason to be optimistic about Nepal's commitment to this new form of government. Yet the practice of democracy remains in the hands of the economic and social elite, primarily in urban areas. The literacy rate, particularly of women, is extremely low (18%-20%) and opportunities for education favor males. Increasing the democratic participation of grassroots-level citizens will help consolidate democracy, broaden the base of informed and responsible voters, and expedite the development process in Nepal. In the case of women, literacy is also directly related to a decrease in fertility rates, with the resulting impact on population growth.

Activities. USAID provides support to strengthen the capabilities of the Parliament secretariat through training and internships to assist all parliamentary committees. USAID strengthens members of Parliament through orientation in parliamentary procedure and constitutionalism, selective research services for pending legislation, and workshops for all members on pertinent topics that will improve their abilities as lawmakers. The judiciary receives support for improving efficiency of case management, curriculum development and training for officers of the court, for revision of civil and criminal procedural codes, the establishment of a central law library, and a clinical legal education program at the university law school. Local government is supported through training for village and district development committees in transparency, accountability, representation, and project management. Village-level associations and NGOs receive assistance in democratic organization and participation in prioritized development schemes.

Democracy activities, funded by the PVO co-financing and Asia democracy programs include women's legal literacy classes in rural and poor communities; efforts to combat violence against women; redress of bonded labor within a low-caste community; civic education; self-help group formation; formation of a human rights commission; and pilot surveys of political opinions in several districts in preparation for a national poll. The basic education project, with its focus on literacy for women, directly complements the democracy program's objective to increase knowledge and the participation of women and disadvantaged groups at the grassroots level, and the first strategic objective aimed at stabilizing population growth.

Related Activities. There are demonstrated links between a strong democracy and a flourishing liberal economy. Activities under the objective for income growth complement the democracy objective by emphasizing personal independence and democratic practices in user and producer group formation.

Indicators. USAID indicators for measuring progress toward achieving this objective are to: (1) increase the educated and informed populace; (2) increase the number of participatory development groups; (3) increase local control of local revenue and resources; (4) increase the effectiveness of the parliamentary committee system; and (5) increase protection of human and civil rights for women and low castes.

**Feasibility and Cost-effectiveness.** Nepal has demonstrated to the world its commitment to a democratic form of government. Its long history of geographic isolation, plutocracy and monarchy is being off-set by intense efforts to modernize and develop within a democratic political framework. Democratic institutions and a policy of economic liberalization underpin economic growth in Nepal.

**Progress in 1993-1994.** Indicators were only recently developed, and quantifiable targets are not yet determined. However, measurable progress has been made during the past year. In sampled districts, the estimated increase in the female literacy rate was 3%, from 21% in 1993 to 24% in late 1994. The number of women who participated in USAID-funded legal literacy fora was 1,254, an increase of 400 over the previous year. The number of citizens who believe Parliament is effective and responsive to their needs increased by 14%. There has been an estimated 15% increase in the number of participatory development groups registered in USAID democracy and agriculture project areas. The number of development project proposals from democratically formed citizens' groups submitted to village development committees increased by 6%. De facto decentralization has been demonstrated by a 5% increase in the local tax retained by local government, and a new block grant which by-passes the district development committees by being distributed directly to the village development committees. There has been a 23% increase in the number of citizens who are satisfied with local government performance and representation. Following the assignment of a research intern to each parliamentary committee, the number of legislative enactments informed by research services increased by approximately 12%. There was an official public hearing held for approximately 5% of the bills introduced to Parliament in 1994, as opposed to 1% in 1992. Draft legislation to redress discrimination against women in the areas of property, inheritance, marriage and citizenship was introduced to committee. The procedure to form a human rights commission has been initiated in the Law Reform Commission.

**Donor Coordination.** The Danish International Aid Agency (DANIDA), UNDP, the German Technical Cooperation Agency, Great Britain, Japan, the Canadian Cooperation Office, and the Friedrich Neumann Foundation all have programs which support the democratization effort in Nepal. Most programs address election support and local government/decentralization. Until this year, USAID was the largest donor in democracy; that position is now held by DANIDA. A Donors in Democracy Committee meets quarterly to discuss and coordinate program interventions to avoid overlap and contradiction.

**Constraints.** Nepal's four year-old democratic institutions are constructed on a foundation of autocracy, paternalism, centralization and semi-feudalism which has resulted in deeply-imbedded attitudes and behavior inhibitive to equal political participation. The traditional, hierarchial society which adheres to caste, sex, and ethnic distinctions impedes equity and constrains understanding of participatory democracy. The immature multi-party system lacks internal democratic practices and procedures. Group formation is a strong crosscutting feature across USAID's SOs and may be viewed as a major intervention to influence this behavioral constraint. Democratically constituted forestry and irrigation user groups, producers' associations, mothers' groups, savings associations and literacy groups all will contribute to a better understanding of democracy processes and responsible citizenship at the grassroots, however basic cultural constraints to democracy will continue to inhibit full participation in democratic practices for a number of years to come.

**Other Donor Resource Flows.** In 1993, total donor disbursements to Nepal were \$375 million, a 50% increase over 1992, led by a 62% increase in disbursements by multilateral donors. The largest donor, Japan, spent \$78 million, followed by the World Bank at \$69 million and the Asian Development Bank at \$67 million. The United States was the third largest bilateral donor, accounting for 4% of the total.

NEPAL  
FY 1996 PROGRAM SUMMARY

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
<b>1. Reduced Total Fertility Rate</b>	411,000	12,730,000			13,141,000
<b>2. Increased Broad-Based Income Growth in Project Areas</b>	8,638,000	400,000	2,983,000		12,021,000
<b>3. Increased Participation of Men and Women in a Democratically Governed Civil Society in Project Areas</b>	500,000			1,652,000	2,152,000
<b>Total</b>	<b>9,549,000</b>	<b>13,130,000</b>	<b>2,983,000</b>	<b>1,652,000</b>	<b>27,314,000</b>

USAID Mission Director: Frederick E. Machmer, Jr.

## PHILIPPINES

**FY 1996 Development Assistance Fund Request . . . . . \$70,372,000**  
**FY 1996 P.L. 480 Title II Request . . . . . \$2,615,000**

The 1992 closure of the U.S. military bases ushered in a new era of Filipino-American relations, one which reflects a shared commitment to human rights and democratic principles, mutual economic interest in an open global trading system, and a common concern for global issues of environmental degradation, population growth, and the acquired immunodeficiency syndrome (AIDS) epidemic. Looking to the future, the Philippines, which shares our language, history, and many of our political and economic structures, not only represents a new and flagship democracy in East and Southeast Asia, but also a potent ally linking us with the fast-expanding economies of China, Taiwan, Indochina, Malaysia and Indonesia.

### **The Development Challenge.**

Despite recent successes in strengthening democracy and accelerating economic growth, the Philippines is still a new democracy in the early, fragile stages of an economic takeoff. "Crony capitalism" is not yet dead, key "closed" institutions still challenge democracy, and almost half of the people live in poverty. Future political and economic stability in this country requires a concerted effort to broaden participation in the economy, to reform key institutions required for an effective democracy, to preserve the already strained natural resource base, and to reduce population growth rate, which at 2.4% is now the highest in Southeast Asia.

The Government of the Philippines (GOP) has set ambitious goals to direct the country toward newly industrialized country status by the year 2000. These goals include almost doubling the per capita income to \$1,000 per year, reducing the incidence of poverty from 46% to 30%, and reducing the population growth rate substantially. These are tall challenges for the Philippines -- such accomplishments took 10-20 years of sustained rapid growth and policy reform in neighboring Asian countries.

Initial results from the accelerated process of opening and deregulating the economy became evident in 1994 with a 5% economic growth rate, a welcome change after 15 years' average growth of 1.7%. But to many this boom just means the man on the street will fall even further behind. With most jobs being in the informal sector, there is chronic underemployment and low productivity, the result of an economy largely closed to competition since World War II. Exacerbating the problem are the highest population growth rate in the region and a rapidly deteriorating natural resource base. For instance, most of the Philippines' valuable rain forest is already felled, in turn spawning massive soil erosion and watershed depletion. Further, Filipinos rely on fish and seafood for 80% of their daily protein, yet only 6% of the country's coastal resources, including mangroves and coral reefs, remain undeteriorated. Fishing yields in this once rich archipelago are beginning to decline.

### **Strategic Objectives (SOs).**

The GOP and non-governmental development partners recognize these problems and proactively seek U.S. Government help in achieving their goals. USAID will assist by directing its resources to four strategic objectives: (1) expanding economic participation and competition; (2) engendering responsive local governance and a credible justice system; (3) reducing the population growth rate; and (4) sustaining key natural resources such as forests and coastal zones. USAID also will address the issue of AIDS prevention to help avert in the Philippines the health disaster now facing Thailand. P.L. 480 Title II feeding and monetization programs, culminating almost 50 years of U.S. Government food support to the Philippines through U.S. private voluntary organizations (PVOs), will be phased out in

1996. The four strategic objectives (including AIDS discussed under population) are described in more detail as follows.

**BUILDING DEMOCRACY (\$18,670,000).**

**SO 1. Engender more responsive local governance and a credible justice system (\$18,670,000).**

Philippine society remains in transition from one in which most economic and governmental decision-making power rests in the hands of a narrow elite, to one that is more pluralistic. Although the country has made significant strides, there are still well-established groups opposed to fundamental economic, social, and political transformation. Since decision-making is concentrated in the hands of a few, there is under-representation of broader public interests in public bodies, and the obstacles to modification of public policies and practices are often near insurmountable. Local governments, the judiciary, the police and the military are the key reform targets to overcome real and perceived problems of bureaucratic inertia, lack of transparency and accountability in public decision-making, and systemic corruption. We are concentrating on the first two -- local governance and the justice system.

Activities. The Philippines 1991 Local Government Code devolved substantial authority, resources, and responsibility to local government units (LGUs). USAID assists these units to improve their participatory planning, resource mobilization, and program administration (including environmental management and disaster preparedness). USAID also supports nongovernmental organization (NGO) research, advocacy and extension programs designed to check the state's exercise of authority, broaden participation in national governance matters, increase understanding of democratic practice and values, and improve the capacity for governance outside central state institutions.

USAID also is actively supporting alternative means of dispute channels at the local level and at public interest advocacy programs. USAID and other donors are jointly exploring means to make the formal judicial system more open, accountable, and predictable.

Related Activities. The partnership of local governments and NGOs is the key delivery system for USAID's sustainable coastal resources development as well as integrated family planning and maternal health activities. USAID's democracy program, in turn, assists these activities in achieving their ends. USAID will continue to seek resources from the Housing Guaranty Loan program to support long-term investments by local government units in environmental infrastructure. Promoting a credible justice system is deemed critical for establishing a level playing field for economic growth and competition, and for enforcing environmental standards.

Indicators. In order to measure progress by 1999, the mission is using the following indicators: (1) 10 percent annual increase in the number of people who believe that they are able to participate in the decision-making process; (2) 10 percent annual increase in the number of people who believe that institutions are responsive; (3) increase in net tax collection by local government units; (4) 10 percent annual increase in the number of people who believe they, or groups of which they are a part, are able to influence local, provincial, or national government decisions; and (5) positive change in the percentage of people who believe that disputes within their community are resolved fairly and efficiently.

Feasibility and Cost-effectiveness. As evidenced by implementation of the Local Government Code, there has been a growing realization of the limitations of the centralized state and the responsibility of civil society to participate more effectively in the day-to-day operations of governance. The country's PVOs and NGOs, numbering over 60,000 and organized to resist authoritarian government, have been instrumental in providing services, widening access to justice, and holding public officials accountable. Modest investments by USAID are helping NGOs and local government leaders to better mobilize and direct private and public sector resources for accelerated, broad-based development. In

the judicial sector, where there is minimal apparent political will to reform, alternative dispute resolution mechanisms are a fruitful and cost-effective avenue for reform.

Progress in 1993-1994. USAID's support for decentralization has been instrumental in the orderly transfer of over 70,000 employees to local governments. This decentralization program has increased the local governments' share of national resources by over \$1 billion annually. Development of the systems and procedures for more responsive governance mandated in the 1987 Constitution and 1991 Local Government Code are being realized with USAID support.

A USAID grant to the Asian American Free Labor Institute led to establishment of over 40 labor education and counselling centers in a new industrial zone south of Manila. Those centers have established close working relationships with local private sector enterprises and the GOP. These centers now provide legal counselling and arbitration assistance at the local level.

USAID grants to The Asia Foundation opened up avenues of participation in legal policy formulation and implementation to achieve legal redress and to encourage greater judicial accountability. Support for groups such as Project Courtwatch, the Women's Legal Bureau, the Philippines Center for Investigative Journalism, and the Center for Media Freedom, improved media coverage of justice-related issues and support for citizens' monitoring of the legal system.

Donor Coordination. Complementary programs that have evolved through regular donor coordination include the Ford Foundation's research and support programs for participatory development through NGOs in partnership with government; the Canadian-supported local government support program, which assists local government units in capability-building, and the World Bank-funded third municipal development project, which supports infrastructure needs of cities and municipalities. In the areas of judicial reform, USAID's activities complement those of both the Asia and Ford Foundations in support of alternative dispute resolution programs.

Constraints. Enacting the Local Government Code was just one step in making government more responsive to the people. Constraints are: (1) an entrenched public attitude of dependency on central government and traditional elites; and (2) time pressure for decentralization to succeed in the face of opposing forces of centralization and consolidation of economic and political power.

## **STABILIZING POPULATION GROWTH:(\$33,642,000).**

### **SO 2. Reduce the population growth rate (\$33,642,000).**

The rapid population growth rate and its effects on family health and well-being are primary concerns in the Philippines. Addressing that issue, the GOP has identified the provision of quality family planning services as one of the most effective interventions for reducing fertility and in improving women's reproductive health and child survival. Family planning helps prevent the deaths of infants, young children and mothers by helping women bear children during the healthiest periods of a woman's life. Maternal mortality has remained high here for over a decade. Infant mortality has not decreased markedly over this period. The number of persons tested positively for human immunodeficiency virus (HIV) infection has now exceeded 500 and the GOP estimates upwards of 35,000 persons are affected.

Activities. Reproductive health activities support the GOP's efforts to reduce the total fertility rate and maintain cost-effective health interventions. USAID's program includes support for child survival and family planning efforts in both the public and private sectors. USAID assists the GOP expand and improve local government efforts to deliver child survival and reproductive health services. The program provides family planning information, education and communications, contraceptives, logistics, training, operations research, policy planning and monitoring. Additionally, support is provided to develop local NGOs and to expand the social marketing program. USAID also is supporting the GOP

and NGOs to (1) determine where and in what population groups HIV/AIDS is located, and (2) target these groups for behavioral modification interventions to prevent and control the spread of AIDS.

**Indicators.** The following indicators measure achievement of this objective: (1) population growth rate will decline from 2.4 in 1994 to 2.0 by 1998; (2) contraceptive prevalence rate of modern methods will increase from 24.9 in 1993 to 31.9 in 1998; the infant mortality rate will decline from an estimated 55.7 in 1993 to 49.9 in 1998; the total fertility rate will decline from 4.09 in 1993 to 3.59 in 1998; the maternal mortality rate will decline from 203 per 100,000 in 1993 to 191 per 100,000 in 1998. The percentage of children fully vaccinated is expected to remain at 90% through 1998, and women vaccinated against tetanus toxoid is expected to increase from 80% in 1993 to 90% in 1998. By 1998, a functioning AIDS surveillance system will be in place in over 15 sites in selected areas throughout the nation and condom sales will increase from 10.8 million units in 1994 to 33.4 million units in 1998.

**Feasibility and Cost-effectiveness.** The 1993 Demographic and Health Survey (DHS) has shown that modern contraception is culturally acceptable and does not create a serious moral dilemma for many Filipinos. In recent years the need for modern contraception has only grown greater. The 1993 survey also found that the unmet need for family planning services was 43% among urban women and 51% among rural women. With continued political support for family planning at all levels of the GOP, the potential exists for making significant strides toward a more manageable pace of population growth. The GOP was able to raise vaccination rates to 90% for all children under one year of age. Part of the current strategy is to assist the GOP in maintaining these rates under a devolved health system. The GOP and USAID have determined that, to facilitate local governments' ability to manage their new responsibilities for the delivery of health and family planning services, a performance-based disbursement program is the most effective means of accomplishing the program goals. HIV infection rates in the Philippines are still at a low level, compared to other countries in the region, such as Thailand, Myanmar and Cambodia. Nevertheless, given the circumstances, it is reasonable to assume that the debilitating epidemic experienced by other Asian countries could occur in the Philippines unless efforts are made now to prevent the rapid spread of HIV. Thus, it is cost-effective to focus efforts on prevention at this time.

**Progress in 1993-1994.** The total contraceptive prevalence rate rose from 32.2 in 1986 to 40.1 in 1993. Fully immunized children increased by 1%, from 89% in 1993 to 90% in 1994. The maternal mortality rate has declined from 209 per 100,000 in 1990 to 203 per 100,000 in 1993. USAID and the GOP signed an agreement for the integrated family planning and maternal health program to (1) expand the availability of reproductive health services in the public and private sectors and to increase the use of these services by women in high-risk groups, and (2) foster continued provision of other selected child health interventions at the local level. The GOP established an HIV/AIDS sentinel service in six geographic sites. Infection rates and behavioral surveillance systems have been established in each targeted city for groups assumed to practice high-risk behavior. Mass media campaigns have been designed and implemented. Preliminary designs to support an HIV-free blood banking system have been completed.

**Donor Coordination.** USAID is the largest contributor to both the Philippines family planning program and the national AIDS prevention and control program. The United Nations Fund for Population Assistance will contribute approximately \$25,000,000 for the period 1994-1998. The Australian International Development Assistance Bureau, the Asian Development Bank, the World Bank, the German Assistance Group, and the European Union have agreed to collectively provide \$120 million in loan and grant funds to the Philippines family planning program for the period 1994-1998. In support of the AIDS program, USAID also channels funds through the World Health Organization (WHO) Global Program for AIDS prevention. Australia plans to contribute approximately \$1,300,000 for the years 1993-1995; WHO is providing \$490,000 for 1994-1995; and the Government of Japan provided \$750,000 in 1994. Through the U.S.-Japan Common Agenda, Japan's support to the AIDS



program is expected to dramatically increase in 1995. USAID meets frequently and regularly with donors so that activities will not be duplicative and will be mutually supportive of the GOP programs.

**Constraints.** There are managerial and political constraints which might impact the success of this strategic objective. Devolution of a health system makes it more problematic to operate coordinated, effective national programs. The GOP is aware of the problem and is working through the governors and mayors of the local government units to maintain a responsible and responsive public health system. Finding and tracking the high-risk AIDS groups, with limited resources, impedes outreach programs.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$9,140,000).**

**SO 3. Expand economic participation and competition (\$11,755,000 which includes \$9,140,000 from Economic Growth and \$2,615,000 from P.L. 480 Title II Humanitarian Assistance).**

Relative political stability, a consistent pattern of policy liberalization, and an upturn in economic performance suggest that the Philippines may be moving to a higher economic growth path. The last two years contrast sharply with conditions in the late 1980s and early 1990s when the United States, in concert with other major donors, provided large-scale policy-conditioned balance of payments assistance to the Philippines to help restore democracy and economic stability. Yet decades worth of counterproductive practices and regulations, vested interests protecting turf, and inadequate means of enforcing policies and laws still help to perpetuate poverty and act as a drag on sustainable economic growth.

**Activities.** Major activities to broaden participation and competition include agribusiness reform, trade and monetary policy reform and advocacy, and tax reform and administration. These activities relieve policy constraints on agriculture and manufacturing, lower tariff and non-tariff barriers to both imported inputs and final exports, and reduce rampant tax evasion. Both the Mindanao development program and the regional enterprise development activity are focused on creating new employment opportunities, targeting small business development areas with historically low public investment. USAID sectoral activities in telecommunications, inter-island shipping, agriculture, and energy are serving to open key sectors to competition. Financial sector reform activities deregulate the capital market and expand the scope of the banking system to address the needs of small and micro-enterprises.

**Indicators.** Indicators of broader participation and competition include the increase of the share of manufacturing in employment from 11 percent in 1994 to 15 percent in 1999; the increase of the ratio of exports plus imports to gross domestic product (GDP) from 88 percent in 1994 to 91 percent in 1999; the increase of the ratio of gross domestic capital formation (GDCF) to GDP from 24.3 percent in 1994 to 28 percent in 2000; the increase of direct foreign investment from \$1.4 billion in 1994 to \$2.1 billion in 1999; the decrease of the ratio of the average four firm concentration ratio from manufacturing from 63 to 50 in 1999; the increase of the labor force participation rate from 64.6 percent in 1994 to 36 percent in 1999; the increase in the number of newly registered enterprises from 114,000 in 1994 to 138,000 in 1999; the decrease of the poverty incidence from 41 percent in 1994 to 36 percent in 1999; the decline of the ratio of average urban family income to average rural family income from 2.2 to 1.9; the increase of the tax revenues to GDP ratio from 17 percent in 1994 to 22 percent in 2000; the increase of direct taxes to total tax revenues from 34 percent in 1994 to 40 percent in 2000; and the reduction of the structural interest rate by 1 to 2 percentage points.

**Feasibility and Cost-effectiveness.** The use of technical assistance and policy analysis/advocacy to achieve policy reforms continues to be extremely cost effective. Tax administration work, using the Internal Revenue Service, also is returning substantial results. Large investments in infrastructure are winding down, with construction to be completed in mid-1997. Work in sectoral reform and small and

micro-enterprise development will target key intermediary organizations such as trade and business associations, banks, and PVOs, and should also yield high returns on investment.

Progress in 1993-1994. With USAID support, the GOP started to deregulate inter-island movement of goods and passengers within the Philippines by opening shipping routes to competition and allowing price and service flexibility. The central monetary authorities adopted a market exchange rate policy, liberalized capital flows, improved cash management, expanded government securities, introduced significant organizational improvements and freed up exchange rate mechanisms. USAID was the prime supplier of data that supporters of the General Agreement on Tariffs and Trade (GATT) used for ratification by the Philippine Senate. For the first time in its existence the Philippines Bureau of Internal Revenue is starting to overhaul its management and administrative structure, use performance data in management decisions, prioritize audits, and adopt techniques for detecting unreported income. USAID facilitated entry of new firms into the equity market by helping merge two stock exchanges and facilitating the improvement of surveillance and disclosure programs, accounting and auditing standards and enforcement codes. The USAID-supported private exporters' association championed efforts to decrease administrative impediments to exports and imports. USAID assistance resulted in a build-operate-transfer (BOT) law and advice that spawned a surge of private investment in power, telecommunications and environmental infrastructure, and helped end two years of lengthy power brownouts.

Donor Coordination. USAID's longer-term, interactive technical assistance and analysis complements some of the larger donors who often are not as strong in these areas. Examples include the World Bank cooperation in inter-island shipping and tax reform, and Asian Development Bank cooperation in financial reform programs. USAID is also working with Canada, Norway and Japan on small business development and policy reform.

Constraints. Private and government vested interest groups continue to impede progress. The legal system can cause confusion and long delays. Systemic corruption also slows the reform progress.

P.L. 480 Title II funds in the Philippines supports CARE and Catholic Relief Services feeding programs targeting school-age and pre-school children and pregnant and lactating mothers. Another program uses monetized wheat to provide health and nutrition education and to fund microenterprise development.

## **PROTECTING THE ENVIRONMENT (\$8,920,000).**

### **SO 4. Enhance the management of renewable natural resources (\$8,920,000).**

Strategic natural resource management is needed in the Philippines to replace the destructive extraction of natural resources with sustainable systems. While the population is still predominantly rural (70%), industrial production is expanding with a corresponding increase in urban dwellers, 80% of whom live within the coastal zone. By investing in both rural and urban environmental management, USAID protects the traditional (rural) sources of wealth while also assisting in environmentally sound industrial growth.

The extent of the environmental problem requires a rapid response by both the public and private sectors. USAID is mobilizing and assisting local governments and private sector users to implement sustainable environmental management systems.

Activities. The USAID program has three major components. (1) Community-based forest resources management focuses on privatization of natural resource management for sustainable use. The management of forest and coastal resources is being transferred from a highly centralized government bureaucracy to community-based groups of local governments, private investors, NGOs, and civic and church groups. With USAID assistance, the government has developed a policy framework conducive

to ecologically sound and sustainable economic growth with special attention to tropical forests and biodiversity. The framework also encourages increased economic efficiency in the forest products industries. (2) Industrial environmental management promotes the adoption of cost-effective pollution abatement systems by the industrial sector through pollution management appraisals, environmental risk assessment, and technology transfers. Policy studies and dialogues help rationalize policies on industrial pollution. (3) Community-based coastal resources management will adapt and replicate local solutions to protecting strategic coastal areas. Particularly important will be increasing the incentives for sustainable management through improved tenure rights, increased profitability, and local regulation.

**Related Activities.** USAID actively uses the U.S.-Asia Environmental Partnership's (US-AEP) industrial environmental assistance through trade missions promoting U.S. technologies and hardware as well as biodiversity conservation under the program's Biodiversity Conservation Network (BCN).

**Indicators.** The mission is measuring progress using the following indicators: (1) 500,000 hectares of residual forests managed by community-based user groups by 1998; (2) four private investors and 20 NGOs collaborating with user groups by 1998; (3) 17 percent of forest land covered by comprehensive, community based management plans by 1998; (4) 7 percent of industrial investors implementing cost-effective pollution control measures by 2002; (5) 3,000 kilometers of coastline managed on an ecologically and socially sustainable basis by 2002; (6) 240 municipalities empowered to manage their coastal resources to reduce degradation by 2002.

**Feasibility and Cost-effectiveness.** GOP efforts with forest conservation and environmental management have not proven effective. Community-based user groups, however, have demonstrated effective capability to manage the forests. Through its technical assistance USAID will build on this experience to upgrade public and private sector capacity to sustain activities after project assistance terminates. In industrial environmental management, cost-effective and proven methods of pollution control are available to the industrial sector.

**Progress in 1993-1994.** Approximately 140,000 hectares (ha.) of residual forest were placed under community management, 108,000 ha. of which went to indigenous cultural groups. With significant participation from effected communities, comprehensive management plans have been prepared for more than 20,000 ha. Additionally 300,000 ha. have been transferred to 134 industrial investors under new regulations for management. The Foundation for the Philippine Environment was established with an \$18.0 million endowment invested in government bonds. Policies specifically address transfer of forest resource management responsibility to communities and industrial investors, forest charges assessment, deregulation of exportation for plantation-grown timber, and banning logging in virgin forests were revised. In the industrial sector, pollution management appraisals were conducted for more than 70 industrial corporations, over 40 of which have successfully reduced wastes and increased efficiency and profits.

**Donor Coordination.** USAID will continue its leadership role in coordinating strategic management of donor resources allocated for environment. Present or proposed donor collaboration partners include the Asia Foundation, the World Bank, the Ford Foundation, and the Asian Development Bank.

**Constraints.** Bureaucratic resistance is the principal constraint to more rapid expansion of new forest management approaches. Lack of technical skills among public and private sector personnel is a general problem, but is diminishing due to the positive impacts of hands-on training and further exposure. In the industrial sector, collaboration on pollution control is impeded by a tendency of government officers and environmental activists to rely on national regulation rather than motivation to accomplish objectives. For coastal areas the major constraints are ineffective community regulations, inadequate profit incentives for sustainable use, and lack of capacity for ongoing adaptation of resource management models to different local conditions.

## Other Donor Resource Flows

In 1993 the Philippines received \$1.491 billion in overseas development assistance (ODA). The largest donor was Japan, with \$758 million, followed by the United States, with \$270 million; the Asian Development Bank, with \$100 million; Germany, with \$88 million; and Italy, with \$71 million. Numerous other donors furnished the remaining \$204 million of ODA.

### PHILIPPINES FY 1996 PROGRAM SUMMARY

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanit- arian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Engender more responsive local governance and credible justice system				18,670,000		18,670,000
2. Reduce the population growth rate		33,642,000				33,642,000
3. Expand economic participation and competition  Dev. Assistance P.L. 480 Title II	9,140,000				2,615,000	9,140,000 2,615,000
4. Enhance management of renewable natural resources			8,920,000			8,920,000
<b>Total</b>	<b>9,140,000</b>	<b>33,642,000</b>	<b>8,920,000</b>	<b>18,670,000</b>		<b>70,372,000</b>
P.L. 480 Title II					2,615,000	2,615,000

USAID Mission Director: Kenneth G. Schofield

## SRI LANKA

**FY 1996 Development Assistance Fund Request . . . . . \$18,837,000**

Sri Lanka's economy has grown steadily since liberalization began in 1978 with growth reaching an estimated 6.9% in 1993. However, despite economic progress, poverty persists and per capita income is only \$540. Economic growth has been concentrated in urban areas, and in the industrial and service sectors, and has not been sufficiently broad-based to absorb under- and unemployed labor throughout the country. Agriculture, although the dominant economic activity in Sri Lanka, continues to stagnate. Income distribution patterns disfavor the poor, and much of the poverty is concentrated in the rural areas where 80% of the population resides. While democratic traditions are strong, the Government of Sri Lanka (GSL) remains highly centralized, with few authorities and limited resources given to local governments. Years of civil war have strained GSL resources and threatened stability. U.S. assistance to Sri Lanka (5% of total international aid received) supports U.S. interests by promoting democratic governance, an open and free market economy, and preservation of natural resources.

### **The Development Challenge**

Sri Lanka has an ethnically diverse population of 17.6 million persons residing in an area about the size of West Virginia. Population growth is low at 1.2%. The country has made some progress in evolving from a socialist, centralized economy to a more open and market driven economy. The budget deficit was 8.1% of gross domestic product (GDP) in 1993, down from 15.5% in 1988. Most of this reduction came at the expense of public investment, particularly in infrastructure. The annual inflation rate is about 11.7%. Unemployment is officially estimated around 14%, but may be as high as 35%-40% if underemployment is included.

Sri Lanka combines good human and natural resources with comparatively impressive social indicators. Life expectancy is high for a developing country, and about 87% of the population is literate. However, wide disparities exist in socioeconomic status and access to employment opportunities. About 20% - 25% of the population is considered poor, and while much of this poverty is in the rural areas, there is also severe urban poverty. One of the most serious social problems is extremely poor maternal and child nutrition, with stunting and wasting of children being more prevalent in the rural areas. The GSL has placed a high priority on poverty alleviation. The country's natural resource base is rapidly being eroded, endangering health as well as livelihoods in agriculture, industry and tourism.

Since independence in 1948, politics have maintained a democratic character. Local, parliamentary and presidential elections held in 1994 resulted in a smooth transition to power of a new coalition government, the Peoples Alliance, ending 17 years of United National Party domination. The new government has called for a continuation of economic growth strategies which are now gaining momentum. An eleven year-old ethnic war is centered in the Northern and Eastern provinces, which comprise about 30% of the country's land area and about 15% of its total population. This ethnic conflict has imposed a large drain on the Government's financial resources. The 1994 elections brought renewed hopes for peace and economic development in this area.

Sri Lanka is a responsive, sustainable development partner. However, its track record as a high-level performer in development is relatively short, and while progress has been good, it is also fragile. Sustainability will depend significantly on social and political stability, continued policy reform, environmental protection and conservation, and progress in the three strategic areas now targeted by USAID assistance.

### **Strategic Objectives (SOs)**

The goal to which USAID's program contributes is a democratic Sri Lanka, with broad-based sustainable development, and preservation of natural resources. To accomplish this goal, the USAID

program has three strategic objectives. USAID is encouraging broad-based economic growth by facilitating micro and small-scale enterprise development (both urban and rural) for a broad range of people, while strengthening related financial markets and increasing access to credit and urban infrastructure. USAID is helping to protect the environment through regulatory reform and local involvement in conserving ecosystems and biodiversity. USAID is also building democracy by enabling greater participation of people in all economic classes to define their own needs and achieve their own solutions, and by encouraging higher quality media and legal systems. In FY 1996, USAID will contribute 61% of its development assistance budget to economic growth, 20% to the environment, and 19% to democracy initiatives. A quarter of USAID program funds will support policies and planning in all three strategic objectives.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$13,030,000)**

##### **SO 1. Increased opportunity for people to participate in, and benefit from, a growing market economy (\$13,030,000)**

Sri Lanka is a low-income country with high unemployment and a fragile economic base. For generally improved standards of living, all sectors of the economy must continue to grow at a steady pace and have broad-based impact. This includes strengthening the rural and urban economies through enterprise development, policy reforms, new technology and skills, and strengthening of formal market institutions. More and better jobs for the unemployed and underemployed, and more revenue for the GSL are essential to sustain progress in humanitarian areas, and to sustain the viability of democracy. Slow or inequitable growth and poverty will feed potential political instability.

Activities. The USAID program helps to create credit and savings societies to expand credit access and services to the poor. USAID's direct assistance to private enterprises introduces technologies to improve competitiveness and market penetration, and helps to create sustainable small and medium-enterprise activities, in agriculture and industry. Assistance to capital markets helps to mobilize investment funds which create new jobs and make Sri Lanka's private enterprises more competitive. USAID also assists the GSL with its privatization program to transfer government assets to private control and to encourage private investment in urban infrastructure such as solid waste collection. The P.L. 480 Title III program, funded through FY 1994, has addressed the malnutrition problem and helped leverage free-market, agricultural reforms, while making U.S. wheat available for humanitarian resettlement programs and feeding programs for the rural and urban poor.

Indicators. USAID indicators for measuring progress toward achieving this objective are: (1) Increase in the percentage of private sector participation in GDP from 15.8% in 1995 to 17.2% in 2000; (2) stunting and wasting among preschool children will decline from 60% in 1995 to 40% in 2000; (3) \$88 million annual increase in Sri Lankan Board of Investment domestic and foreign investment approvals per year, from \$880 million of total approvals in 1995 to \$1.32 billion of total approvals by 2000.

Feasibility and Cost-effectiveness. Sri Lanka must continue on a path of economic liberalization. Further opening up of the economy and broad-based growth will result in increased employment and income opportunities. Mobilizing productive savings and investment and increasing opportunities and access to private enterprise comprise the foundation for USAID's efforts. Assistance activities are aimed at policy reform and implementation, developing efficient financial markets, and strengthening private enterprises and institutions in the agricultural and manufacturing sectors. This approach is feasible given Sri Lanka's impressive progress in opening its economy. USAID's investment of \$7-\$8 million per year in economic growth activities is conservatively estimated to have rates of return in the 15%-25% range. This investment is effectively leveraging private sector investment at the micro-enterprise/mini-enterprise level.

Progress in 1993-1994. The dramatic increases in employment and income seen in previous years continued through 1993 and 1994. The availability of technical and support services to microenterprises and small businesses has improved, and has led to measurable effects on productivity, job creation and profitability. Some 12,000 people have increased their incomes through promotion of non-farm micro and small businesses and agribusinesses. Employment opportunities have been enhanced at the grassroots level by setting up microenterprise and income-generation activities through private voluntary organizations (PVOs) which have provided training in microenterprise development, new and more productive farming techniques, and vocational skill training for 27,500 people in urban and rural areas. New enterprise creation and expansion of existing enterprises, made possible by assistance to Sri Lanka's capital market, has created over 8,000 jobs in 1993 and an estimated 10,000 jobs in 1994, bringing the total jobs created to approximately 24,000. In 1994, the capital market was able to raise \$167.2 million through initial public offerings and rights issues, compared to just over \$20 million three years ago.

Improved farming techniques and diversification into high-value crops have increased income of participating farmers from \$578 per year in 1987 to \$1,042 per year in 1992-93. Dissemination of new technology has enabled farmers to realize additional income over their traditional crop paddy by using irrigated plots. Through 1993, 500 assisted private firms have purchased over \$15 million in goods and services from the United States, producing nearly a fivefold return on USAID's investment. During 1994, a further 100 firms have been assisted and are expected to result in similar returns. With USAID assistance, 40 of 61 companies identified by the GSL have been privatized, and \$310 million in assets transferred to private control.

Some 700,000 rural poor people received loans from the strengthening of community-based thrift and cooperative societies. The current USAID Housing Guaranty program, concluded in FY 1994, provided approximately 45,000 below median-income families (less than \$95 per month) with long-term credit for housing. In addition, the P.L. 480 Title III resources supported the GSL's feeding programs, benefiting approximately 250,000 poor people, and leveraged a full range of policy reforms.

Donor Coordination. USAID's programs under this strategic objective complement World Bank and Asian Development Bank programs. The Asian Development Bank's financial sector program is developing a secondary market for government debt securities and improving capital market facilities. USAID projects complemented the World Bank and Asian Development Bank's lending programs for industrial development. USAID collaborated closely with Asian Development Bank agriculture sector projects to establish and monitor performance on institutional reforms and policy changes.

P.L. 480 Title III resources supported PVOs which supplemented World Bank, Norwegian, Canadian, and Swedish aid program assistance to improve food security, poverty alleviation and employment creation.

Constraints. Although the new government continues the goal of expanding the free market economy, it has yet to define its development focus and strategy and may not move ahead at the required pace in some development areas. In addition, the business skills found in rural and urban, micro to medium-scale enterprises will need to be improved in order to access and utilize economic opportunities. Overall, Sri Lanka's economic growth performance is fragile and to some extent will be, dependent on resolution of its internal ethnic conflict and its progress in maintaining social and political stability.

## **PROTECTING THE ENVIRONMENT (\$2,545,000)**

### **SO 2. Improved environmental practices to support sustained development (\$2,545,000)**

Sri Lanka is an island nation which is rapidly depleting its natural resource base. Its population density is one of the highest in the world. It is therefore imperative that its natural resources be wisely managed to ensure that the sustainable gains from economic growth are not undermined from declining

environmental quality or resource degradation. The future sustainability of Sri Lanka's economy is dependent on the preservation of its natural resource base, such as water for irrigation and electricity, and a clean ocean to attract tourists. Capable institutions are required for formulating and implementing policies and programs to ensure full attention to environmental management.

**Activities.** USAID environmental activities focus primarily on policy reform and regulatory change, with successful pilot demonstration sites in natural resource management. The natural resource environmental policy program, the flagship of this objective, assists the Government of Sri Lanka to implement new regulations on industrial siting, to undertake environmental impact assessments on important development projects, to establish an environmental licensing program, and to implement a pollution prevention and environmental auditing program. Another component of the program helps to organize user groups to take joint responsibility for sustaining the productivity of selected watersheds through participatory management and control of land and water resources.

**Indicators.** USAID indicators for measuring progress toward achieving this objective are: (1) Number of people benefitting from adoption of environmentally sound practices will increase from 116,030 in 1995 to 173,530 in 2000; (2) percentage of high-polluting industries which are implementing pollution prevention/control measures will increase from 15% in 1995 to 60% in 2000; (3) the number of hectares of land with agricultural conservation practices will increase from 7,960 hectares in 1995 to 37,460 in 2000; and (4) the percentage of municipal solid waste disposed through environmentally sound systems will increase from 20% in 1995 to 70% in 2000.

**Feasibility and Cost-effectiveness.** USAID's approach emphasizes development of institutional and policy capacity carried out in cooperation with a wide range of Sri Lankan partners, including government agencies, academic institutions, the private sector, and community groups and non-governmental organizations (NGOs). USAID leverages significant funding from other donor programs and the GSL to improve environmental resource conservation. There is a strong receptiveness to policy interventions which achieve high cost-effectiveness through national and regional impacts. USAID achieves lasting results and the permanent adoption of environmentally sound development strategies and practices by focusing on the development of local institutions and participation at the community level. USAID's involvement in this strategic objective will be \$2.54 million in FY 1996, a relatively small investment for planning and sound policy returns which will have a large payoff for improved quality of life in the future.

**Progress in 1993-1994.** USAID has assisted the GSL in a variety of institutional strengthening activities which were almost non-existent four years ago, most significantly, the revision of the national environmental action plan (NEAP) for the next five years. This includes the acceptance of pollution prevention and waste minimization approaches as essential elements of a national industrialization program. The use of environmental impact assessment methodology also was institutionalized, with 200 officials trained. Ninety-five user-groups, involving 1,200 farm families, were formed for shared control of natural resources with their local government in two pilot watersheds. Since 1993, a total of 50,000 low-income people participating in community-based, resource management have benefitted from such interventions as improved sanitation. Training and awareness programs encouraged users to accept and utilize conservation concepts, including conservation farming, soil conservation measures, and tree planting. In summary, USAID has had results in addressing green, brown, and blue issues of environment.

**Donor Coordination.** USAID collaborated closely on the Natural Resource Environmental Policy program with the World Bank on the development and implementation of the national environmental action plan and the Colombo environment improvement plan for solid waste management, clean settlement and the economic study of waste treatment. USAID also works closely with the World Bank, United Nations Development Program, and the Asian Development Bank on a variety of issues including biodiversity, wildlife conservation, and watershed management.



**Constraints.** Rapid economic growth is putting pressure on Sri Lanka's natural resources. Even if economic growth slows and does not provide employment and incomes demanded by the population, there will be increased pressure for extractive use of environmental resources and greater difficulty in restraining development of environmentally unsustainable activities. There is also still some resistance among key decision-makers to the premise that environmental considerations should be factored into every aspect of development planning, and the commitment of the GSL to protect the environment will be essential to conservation of critical eco-systems.

## **BUILDING DEMOCRACY (\$3,262,000)**

### **SO 3. Greater empowerment of people to participate in development and democracy (\$3,262,000)**

Ordinary Sri Lankans have relatively limited opportunities to participate in, let alone influence, decision making that affects their political, social, and economic well-being. Although great progress has been achieved by Sri Lanka in some social indicators, unemployment, poverty, social unrest, ethnic conflict, and dependency on government continue to threaten the sustainability of progress made to date. Broader participation, improved public information, and more responsive and capable democratic institutions are essential for Sri Lanka to sustain its current economic momentum and achieve its aspirations of becoming a modern developed society.

**Activities.** USAID supports PVOs which represent vulnerable groups, such as displaced persons and youth, and their priorities; assistance for organizing farmer groups to better use water and land resources; and institutional strengthening to increase access to justice and an improved media. The newly signed Citizens' Participation Program is the cornerstone of USAID's democracy program. It is strengthening democratic processes, particularly at the village level, enabling ordinary citizens to address fundamental social and economic development needs.

**Indicators.** USAID indicators for measuring progress toward achieving this objective are: (1) increase in the number of people with access to legal services and information; and (2) increased expenditure by local government units. Targets for these indicators will be determined by 9/30/95 once the cooperative agreements with two principal U.S. PVOs are established.

**Feasibility and Cost-effectiveness.** USAID has a strong record of success in working with NGOs on popular participation. Social, political and economic crises have disrupted Sri Lankan society. However, as a testimony to the strength of democracy in Sri Lanka, these crises have not weakened the commitment to democratic processes, but rather reaffirmed the necessity of strengthening these processes and making them more receptive to citizen input. USAID has chosen local government, participatory development, legal systems and the media as areas of activity under this objective. In each area, there are well established groups to work with on specific issues.

USAID will invest almost \$3.3 million under this strategic objective in FY 1996. Working with grassroot-level NGOs will involve lower costs while supporting a diverse range of economic activity, with assistance to business associations and their members, to displaced persons in the North and East, and income-generation for farmers, rural women and urban slum dwellers. Assistance to mediation boards in rural areas is a cost-effective way of providing access to legal services. USAID expects the impact per dollar of assistance to be high.

**Progress in 1993-1994.** USAID's democracy activities focus on strengthening the role of NGOs by increasing their ability to advocate for policies and programs that enhance the quality of life for all citizens, especially vulnerable populations. USAID has worked closely with U.S. PVOs and Sri Lankan NGOs to increase the public's awareness on human rights issues, rule of law and justice through training programs and seminars for 5,400 people, including judicial and legal professionals. USAID also has strengthened institutional capabilities and activities of 230 farmer groups, 23 business chambers, and 33 environment and human rights advocacy groups. During 1993-1994, USAID partner

institutions have made significant strides in providing access to democratic processes for ordinary Sri Lankans. Emergency regulations restricting individual freedoms were rescinded, thousands of people redressed their grievances through community-based mediation boards, and nongovernmental organizations advocated greater freedom of information, exposure of human rights abuses, and resolution of environmental issues.

Humanitarian assistance has been provided to 13,296 people affected by ethnic conflict in the northern and eastern provinces. Public awareness of prevention and control of drug abuse, sexually transmitted diseases and human immunodeficiency virus (HIV) and acquired immunodeficiency syndrome (AIDS) has been provided to NGOs, citizen group leaders and Government decision makers, through seminars, workshops and training.

Donor Coordination. USAID works closely with various bilateral donors through the United Nations Development Program-sponsored forum for NGOs. Most of these organizations and donors are involved in community-based participation activities. USAID also has collaborated with the Dutch and Norwegian aid agencies on human rights activities.

Constraints. Uncertainty remains regarding the new government's outlook towards private sector-led growth strategies and the role of NGOs. Implementation of the GSL's stated policy of devolution of power to lower levels of government is mandatory if democracy is to become truly participatory.

#### **Other Donor Resource Flows**

In 1993, total donor assistance to Sri Lanka was about \$475 million. The United States, with about 5% of total assistance, is the second largest bilateral donor (behind Japan) and the fifth largest overall. Leading donors are the Asian Development Bank, the World Bank, and the International Monetary Fund. There are 17 bilateral and 6 multilateral donors to Sri Lanka.

**SRI LANKA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
<b>1. Increased opportunity for people to participate in, and benefit from a growing market economy</b>	<b>13,030,000</b>				<b>13,030,000</b>
<b>2. Improved environmental practices for sustainable development</b>			<b>2,545,000</b>		<b>2,545,000</b>
<b>3. Greater empowerment of people to participate in development and democracy</b>				<b>3,262,000</b>	<b>3,262,000</b>
<b>Total</b>	<b>13,030,000</b>		<b>2,545,000</b>	<b>3,262,000</b>	<b>18,837,000</b>

USAID Mission Director: David A. Cohen

## WEST BANK AND GAZA

**FY 1996 Economic Support Fund Request . . . . . \$75,000,000**  
**FY 1996 Development Assistance Fund Request . . . . . \$1,000,000**

The USAID program in the West Bank and Gaza provides critical support for the Middle East peace process, including the September 1993 Israeli-Palestine Liberation Organization (PLO) Accords. Because of the strategic importance of the region to the United States and the historic opportunity represented by the Accords, the United States is committing significant resources to help the Palestinian people. Following the 1993 Declaration of Principles, the United States pledged \$500 million for a five-year program of assistance to the West Bank and Gaza, including \$375 million administered by USAID and \$125 million through the Overseas Private Investment Corporation (OPIC). USAID assistance, focussed on economic and democratic development, contributes to the stability of the West Bank and Gaza and the region. In addition, the United States works actively with other donors to coordinate assistance to the West Bank and Gaza.

USAID programs are creating jobs and producing real improvements in the lives of Palestinians. Tangible benefits achieved in 1994 include: job creation; renovation of over a thousand clinics, schools and houses; the construction of more than 500 small scale water facilities; and skills training in such areas as accounting, health education, and business planning for 7,100 individuals. Support also has been provided for start-up costs of the new Palestinian Authority.

### **The Development Challenge.**

The development challenge--and opportunity--in the West Bank and Gaza is formidable. The nascent Palestinian Authority is beginning to assume responsibility for governing the Gaza Strip and the West Bank town of Jericho. However, deteriorating economic conditions threaten to undermine public support for the Israeli-PLO Accords. The peace process could falter and the internal social, economic and political situation could destabilize if standards of living continue to fall and democracy is not nurtured. On the positive side, the Accords offer an opportunity to reinforce the strong grassroots, participatory foundation and the high levels of education and entrepreneurship that characterize Palestinian society. Moreover, strong international support to meet the development challenge reinforces USAID efforts.

The West Bank and Gaza population is approximately 1.7 million (1.0 million in the West Bank and 700,000 in Gaza). The birth rate is high at 51 per 1000. Per capita income, which is highly dependent on external remittances, is falling. The 1993 per capita gross domestic product was \$1,500. Public infrastructure and services are inadequate and badly deteriorated. As a result, Palestinians trail others in the region (i.e., both Egyptians and Jordanians) in quality of life and basic services, ranging from education to sanitation, road networks to water delivery systems. Water is scarce and, in Gaza, polluted. There are no standards for health service. The Gaza Strip is one of the mostly densely populated areas in the world, and up to 60% of its labor force is unemployed.

### **Strategic Objectives (SO).**

The goal of the West Bank and Gaza program is to enable Palestinians to provide for their own economic and social well-being. This goal is achievable with the resources that all donors have pledged and the human and other resources that Palestinians can bring to bear. The goal is supported by a program emphasis on two Agency priorities: building democracy and encouraging economic growth. USAID strategy--subject to revision as changes occur in the highly volatile political environment--consists of five strategic objectives.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$45,063,000).**

### **SO 1. Small and medium producers increase the sustainable and marketable production of goods and services (\$29,650,000).**

The private sector, which is dominated by small producers, is the backbone of the West Bank and Gaza economy. In order for the private sector to grow, constraints such as the absence of a clear legal and regulatory framework, limited small and microenterprise access to credit, and marketing and production obstacles must be addressed. USAID assistance will promote increased employment, incomes, and production.

Activities. A number of activities support USAID's economic growth objective in the West Bank and Gaza. USAID support to small business will strengthen private Palestinian enterprises by improving their management, production and marketing skills and by developing marketing and information services through local organizations. A loan guaranty program encourages participating local banks to lend to Palestinian small and microenterprises by covering part of the perceived lending risk. A new microenterprise project will target the large segment of the population not reached by the formal financial system. A new private and voluntary organization (PVO) project will award grants competitively to United States and local non governmental organizations (NGOs), for activities which directly support this and other strategic objectives.

Related Activities. Past USAID grants in FY 1994 and 1995 to the Overseas Private Investment Corporation (OPIC) and the Department of Commerce provided for loans, guaranties and insurance, and promotes joint U.S.-Palestinian investment ventures. Rule of law activities undertaken under USAID's on-going democracy project will help improve the overall business climate by assisting in the reform of commercial law.

Feasibility and Cost-effectiveness. Private sector enterprises in the West Bank and Gaza benefit from a heritage of entrepreneurship, well-educated labor, and a capacity to cope with economic hardship. These attributes suggest that the growth potential of the private sector would be significant with a more favorable business climate.

Progress in FY 1993 - 1994. An \$8 million loan guaranty facility was established and training for bankers and businesses initiated. The \$11 million small business support project also began in FY 1994. Training and technical assistance to local firms and business services such as Chambers of Commerce has started. U.S. PVOs provided \$2 million in credit for small enterprises through NGOs; technical assistance and training for more than 700 Palestinian small businesses, agricultural enterprises, and cooperatives should improve efficiency of operations and utility of services. Under OPIC and Department of Commerce grants, nine projects were developed, which if undertaken potentially represent \$100 million in capital investments. These projects could generate \$168 million per year in operating revenues and create up to 5,000 permanent and temporary jobs.

Donor Coordination. USAID will lead donor coordination efforts for private sector development, working closely with the European Union which is providing credit and marketing assistance, with the World Bank on the policy level, and with others to ensure that programs are compatible.

Constraints. At the most fundamental level, low incomes and high unemployment limit private sector growth. The lack of a clear legal and regulatory framework is a disincentive for foreign and domestic investors. Deficiencies in the financial system limit access to credit and other financial products and services. Limited access to technology and market information are also issues.

### **SO 2. Palestinian public and private sector plan for and provide improved housing for low and moderate income groups (\$3,904,000).**

There is an acute housing shortage and serious inadequacies in the provision of environmental services such as wastewater and sewage hookups and disposal for residential areas. In addition, a West Bank and Gaza housing strategy and policy framework that will encourage both public and private sector building of lower income housing and the creation of a housing mortgage system are needed. USAID support for the housing sector creates jobs, encourages further economic development, and improves the living conditions of Palestinians.

**Activities.** Apartments for families of modest resources are being constructed by the United States and local firms. A home improvement loan program through a local bank will enable Palestinians to improve existing houses. A neighborhood upgrading program will improve basic services in selected low-income areas. The Palestinian Housing Council, a local NGO, is being strengthened, and technical assistance to develop a housing strategy will be provided.

**Feasibility and cost-effectiveness.** While USAID's limited resources do not enable it to meet all the housing needs, it can have a significant impact by helping Palestinian institutions develop the where-with-all to address the housing shortage. Moreover, there is significant other donor involvement to complement and reinforce USAID investment in the sector.

**Progress in FY 1993 - 1994.** Construction of 192 housing units in Gaza is underway. The home improvement loan program is being initiated. Under a USAID grant of \$5.88 million, the United Nations Relief and Works Agency (UNRWA) rehabilitated 500 housing units for families receiving special hardship assistance in the Gaza Strip.

**Donor Coordination.** USAID collaborates with the European Union, which is also constructing housing in Gaza. The United Nations Development Program (UNDP) and Norwegian plans to assist land use planning efforts will complement USAID efforts, as does World Bank training of Palestinians in housing strategy development.

**Constraints.** In addition to the lack of capital, the cost of land and building materials is high and rising, and there is no effective public institutional framework for financing housing. Building codes, regulations and standards are either absent, inadequate or inappropriate.

**SO 3. Palestinians plan for and provide preventive and public health services which promote appropriate roles for the public and private sectors and which can become sustainable (\$12,509,000 of which \$11,509,000 from the Economic Support Fund and \$1,000,000 from Development Assistance Fund).**

The Palestinian Authority and NGOs need technical assistance and training in developing an efficient health care system. Family planning services are virtually non-existent and are essential given the unsustainable rapid population growth.

**Activities.** The new USAID health systems support project will build the capacity of governmental and non-governmental health care providers to improve health-care services. The project will provide technical assistance, training, commodities and equipment to establish health sector management systems in both the public sector and in the Palestinian NGO health community.

**Feasibility and Cost-effectiveness.** To meet this strategic objective, an efficient health care system must be created. The current approach to health care is inefficient and costly. Putting a new system in place, which enhances both public and private sector roles, is the only solution to this problem. Family planning is needed and cost-effective, given the rapid rate of population growth.

**Progress in FY 1993 - 1994.** The \$23 million health project was approved and several activities initiated, including strengthening Palestinian capabilities to undertake the first census since 1967, starting a demographic and health survey to provide critical health and family planning data, and

assisting local efforts to control a cholera outbreak. Cost accounting, a fundamental need for efficient utilization of resources, is being established for the Palestinian Authority. USAID-funded PVOs contributed to preventive health services by constructing and renovating small health clinics (also resulting in jobs); providing technical, managerial, and financial management training for 100 preventive health educators; undertaking home-based training for the parents of 4,000 Gazan handicapped or at-risk children; and constructing an ear-mold laboratory and hearing center.

Donor Coordination. USAID works closely with bilateral donors and international agencies to promote appropriate investment in the sector.

Constraints. The key constraint is lack of a system with well-defined roles for the public and private sectors.

Under this strategic objective, USAID addresses not only economic growth but also rapid population growth in the West Bank and Gaza through centrally-funded family planning activities. Birth spacing and family planning information services will be integrated into overall family-health services.

#### **BUILDING DEMOCRACY (\$24,373,000).**

##### **SO 4. Palestinians establish democratic and legal institutions to strengthen accountability (\$24,373,000).**

The central challenge of the Declaration of Principles is the establishment of a Palestinian self-governing administration based on democratic principles. Free and fair elections are the first step in this process in establishing democratic decision-making processes. Transparency, accountability, and adherence to rule of law are essential elements of a democratic society and sustainable economic development. PVOs and NGOs also play an important role in civil society.

Activities. Democracy assistance focuses on free and fair elections, accountable governance, adherence to the rule of law, and a strong civil society. USAID assistance is designed to support immediate actions which further the peace process, such as elections, and longer-term institutional development. A past grant to the United States Information Agency helped develop the skills and professionalism of Palestinian pollsters, journalists, and broadcasters in order to promote a more open, vibrant and responsible society. AMIDEAST, a U.S. PVO, is providing management training to key public institutions to improve public administration. A separate project will finance competitively selected PVO activities which contribute directly to this strategic objective. A USAID-funded municipal development project will provide grants to municipalities to implement community-identified projects such as roads, water and electrical connections, and public service facility renovation.

Related Activities. Through a centrally-funded project, USAID is supporting the work of three Palestinian NGOs. The activity promotes Palestinian women's economic and political participation through leadership skills development, public awareness campaigns.

Feasibility and Cost-effectiveness. The feasibility of this objective is contingent upon the outcome of negotiations between the Israelis and Palestinians on the timing and substance of elections and on the commitment of the parties to democratic development.

Progress in FY 1993 - 1994. A \$20 million comprehensive democracy project was approved. Assistance was provided for central and municipal-level organizations and with NGOs. The National Democratic Institute, a U.S. PVO, is carrying out a civic education program. The International Foundation for Electoral Systems, a U.S. organization, is providing expertise to the Elections Commission on various aspects of the electoral process. The International Republican Institute, another U.S. PVO, is working with a local organization to conduct opinion polls on popular attitudes concerning the elections and the transition to self-rule. Workshops have been presented for women

on election awareness. Applied legal research and public conferences have helped Palestinians clarify legal and judicial development priorities. A municipal needs assessment was done to identify sector constraints and possible quick-start activities.

Donor Coordination. The European Union and USAID are providing coordinated support to the Palestinian Elections Commission. The World Bank and USAID are coordinating assistance related to commercial law.

Constraints. Political divisions and the PLO's lack of experience with democratic governance are potential constraints.

## **PROTECTING THE ENVIRONMENT (\$5,564,000).**

### **SO 5. Improved quality and more sustainable use of water resources (\$5,564,000).**

Water supply and wastewater collection treatment and use have been identified as the most pressing environmental problems facing the Middle East. Therefore, the program will emphasize environmental concerns related to wastewater contamination and conservation of available water resources. Of particular concern is wastewater collection and treatment and more appropriate water use, including the principal uses of domestic water supply, industrial uses, and irrigation.

Activities. USAID plans to begin work in FY 1996 on rehabilitating and expanding aging wastewater treatment systems in several municipalities. Projects may include both wastewater-treatment and water-recycling components. Upgraded water treatment systems will help improve the usage of scarce water resources.

Related Activities. A Middle East regional water dispute resolution project will focus on water treatment technologies and quality standards for wastewater reuse; improved management of municipal water systems, such as programs for reducing illegal hook-ups in distribution systems and setting and collecting water charges; and regulation of groundwater use, including drilling.

Feasibility and Cost effectiveness. Activities will be selected for their appropriateness relative to local conditions and the ability and commitment of Palestinians to maintain them.

Progress in FY 1993 - 1994. Through grants to the United National Development Program (UNDP), water systems have been extended and upgraded in Rafah, Ramallah, and Nablus. The upgrading is resulting in reduced water loss and maintenance costs and improved health conditions. U.S. PVO job-creation activities included the construction of 500 small-scale wastewater and sewage disposal systems and rain-catchment cisterns.

Donor Coordination. West Bank and Gaza's water and wastewater infrastructure needs have attracted considerable donor interest. However, there is still unmet need. As part of its three-year emergency assistance program to cover the sector, the World Bank has identified \$111 million of emergency infrastructure needs. The Bank has committed \$40 million and the European Union another \$40 million for water projects. USAID will work closely with others to ensure a good fit between donor activities and to ensure support for water protection policies, regulatory frameworks, and responsible management systems.

Constraints. Constraints include limited availability of water in the region, poor water quality (salinity), and the lack of public revenue to meet the recurrent cost of the systems.



**Other Donor Resource Flows.**

More than 40 donors have pledged \$2.4 billion to West Bank and Gaza development efforts between 1994 and 1998. The United States Government pledge makes it the largest bilateral donor. Other leading donors are the European Union, Japan, and the multilateral organizations, including the World Bank, United Nations Relief Works Agency and the United Nations Development Program.

**WEST BANK AND GAZA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
<b>1. Increased production</b>	29,650,000	0	0	0	29,650,000
<b>2. Improved housing for low and moderate income groups</b>	3,904,000	0	0	0	3,904,000
<b>3. Preventive health services</b>			0	0	12,509,000
<b>Economic Support</b>	11,509,000				
<b>Dev. Assistance</b>		1,000,000			
<b>4. Democracy and legal institutions</b>	0	0	0	24,373,000	24,373,000
<b>5. Sustainable use of water resources</b>	0	0	5,564,000	0	5,564,000
<b>Economic Support</b>	45,063,000	0	5,564,000	24,373,000	75,000,000
<b>Dev. Assistance</b>	0	1,000,000	0	0	1,000,000
<b>Total</b>	45,063,000	1,000,000	5,564,000	24,373,000	76,000,000

USAID Mission Director: Christopher Crowley

## YEMEN

**FY 1996 Development Assistance Fund Request . . . . . \$9,465,000**

The Republic of Yemen, the most populous country on the Arabian Peninsula with over 12 million people, faces daunting economic development challenges. It remains one of the least developed countries with one of the world's highest population growth rates; highest infant and child mortality rates; and widespread illiteracy, particularly among women and girls. Average life expectancy at birth is only 53 years. As development needs become more urgent, Yemen's economy continues to decline.

Despite these problems, Yemen has embarked on a process of democratization that goes far beyond that attempted by any other country in the region. It has the only popularly and freely elected democratic government on the Arabian Peninsula, with freedom of speech and press unmatched by other countries in the area. Assistance that will help Yemen's economic, population, health and political development will ultimately have a positive influence in this important region of the world, thus serving the U.S. strategic interest of maintaining stability while supporting an indigenous democratic movement to achieve sustainability.

### **The Development Challenge.**

In May 1990, the Republic of Yemen was formed by the unification of the former North and South Yemens and a democratic society was declared with a multiparty political system, a free press, and a broadening of individual freedoms. Shortly thereafter, the Gulf crisis erupted, resulting in the severing of Saudi and Kuwaiti aid and the reduction of aid by many western donors, including the United States. Still, Yemen proceeded alone with a remarkable democratization process, conducting a free, fair, and representative election in April 1993. However, the economic effects caused by the Gulf crisis, combined with government mismanagement, sharply heightened Yemen's economic plight and decreased its capacity to provide services to its citizens. Internal dissatisfaction resulted in political infighting and finally a two-month civil war in mid-1994. At the war's end, Yemen was once again united as a democratic nation but its economy was shattered.

As financial resources have declined, the effects of a population expanding at over three percent per year have resulted in a major decline in the quality of health, social, and economic services. The weak institutional capacity of Yemen's various ministries and development agencies is becoming more evident as they grapple with ever worsening problems. Since the end of the civil war, the Yemeni Government has taken a more realistic look at its economic problems and institutional weaknesses and is clearly more receptive to donor assistance in addressing these needs.

### **Strategic Objective.**

USAID has one strategic objective in Yemen. Supporting this strategic objective, USAID has two cross-cutting themes.

### **STABILIZING POPULATION GROWTH (\$6,575,000).**

**SO. Increased maternal-child health and contraceptive prevalence among Yemeni women and their families (\$8,825,000, of which \$6,575,000 is Population and \$2,250,000 is Economic Growth).**

To assist Yemen to reverse the current erosion in living standards, USAID is supporting increased use of integrated health and population services by Yemeni women and their families. USAID's strategy focuses on women to enable this huge untapped segment of human resources to participate actively in Yemen's development. USAID's integrated approach to maternal and child health and family planning will lower child mortality as well as the desire for many children to compensate for high child mortality rates. Improving mothers' health will enable them to have healthier children while improved

health facilities and delivery systems will provide an attractive avenue for the introduction and promotion of family planning in Yemen's conservative society. USAID's integrated Women-in-Development (WID) program emphasizes service support to assure that once quality skills and management techniques are learned, support services will allow women to use their skills for direct economic gain. Consistent with its efforts to improve national institutions in Yemen, USAID is expanding its efforts to include unified southern governorates of the country. The generally more progressive cultural attitudes in these governorates will also provide added opportunity for the creation of successful models that can be emulated in other parts of the country, especially in regard to expanded roles for women

Activities. USAID has developed a two-pronged approach to address population in Yemen which treats maternal and child health and family planning in tandem, improving the quality of the former while promoting increased use of the latter. This approach also improves service delivery at the field level, while addressing institutional weaknesses at the central level.

The Ministry of Public Health, with USAID assistance, has adopted an integrated maternal and child health and family planning approach that currently is being implemented. Two USAID projects are being carried out in parallel: a child survival project that is devoted to improving Yemen's health system, and a project that integrates maternal and child health and family planning. These projects will be modified to emphasize improved management of Yemen's public health care system, expanding its logistical system, and increasing the quality of health services through improvements in supervision of health workers.

USAID's population activities have a strong policy component that works with and supports Yemen's National Population Council (NPC), the Yemeni Government agency that is both implementing existing policy and adapting it to evolving conditions. Support to the NPC will end in 1997 when the secretariat will be able to function on its own.

Indicators. USAID's principal indicators for measuring progress toward achieving the strategic objective are: (1) increase in the number of new family planning users at USAID-assisted primary health care centers from 4,500 in 1993 to 14,100 in 1997; (2) increase in the number of active family planning users at USAID-assisted primary health care centers from none in 1993 to 12,900 in 1997; (3) increase in the percentage of Women's Union sub-branch centers engaged in activities that lead to gainful employment of its members; and (4) increase in the number of USAID-trained women in senior government positions from 10 in 1993 to 15 in 1997.

Feasibility and Cost-effectiveness. Economic development cannot be sustainable in a poor and underdeveloped country with limited resources if that country is experiencing rapid population growth. Although a conservative country, Yemen took a giant step forward in 1992 when it formally recognized rampant population growth as a major impediment to development. If this problem is not addressed, it will be nearly impossible for even the most effective development programs to keep pace with the new demands of an enlarging population.

USAID's assistance will improve maternal and child health services while promoting family planning. Healthier children and mothers lead to lower mortality rates and a lessened need for lifelong bearing of children. If facilities in Yemen's health system can produce this confidence in its clients, these facilities will stand a greater chance of convincing and supporting the same clients in family planning techniques. While much has been accomplished in improving Yemen's health care system, it is still rudimentary at best. USAID's program will continue to place equal emphasis on improving Yemen's health delivery system and on introducing family planning.

The cost-effectiveness of successful family planning in any burgeoning population is self-evident. USAID already has mounted combined efforts with other donors to improve access to primary health care. It has also introduced family planning in targeted clinics. While results are only preliminary and

some fine-tuning needs to take place, it appears that USAID's programmatic approach is appealing to the client population and there is a high likelihood of success.

Women remain the forgotten segment of Yemeni society. They are largely detached from Yemen's economic development. USAID's efforts to date have been limited to attempting to expand women's economic opportunity at the grassroots. This effort will be expanded to the institutional level to assure sustainability and may eventually lead to a micro and small enterprise credit program. USAID believes that once a successful formula is found, replication will be widespread.

Progress in 1993-1994. USAID's health and population activities finished training of rural primary health care workers; began to equip rural primary health care units; improved the cold-chain for childhood vaccination delivery; improved the facilities and services of target primary health care centers, while introducing family planning services; and assisted the Yemeni Government in further developing its policies and implementation strategy for family planning. While still not extensive, Yemen has the beginnings of a group of active users of family planning techniques.

In women's economic development activities, USAID provided extensive practical training and commodity support to Women's Union members in organizing, developing and implementing income-generating activities. In institutional support, USAID played an active role in Yemen's 1993 parliamentary election by providing training, commodity support and election observers. USAID also provided training and commodities to improve the administrative capacity of the Parliament, to include an electronic vote-registering system for the Parliamentary Chamber. During FY 1993 and FY 1994, 60 participants completed their degree training programs in the U.S. and returned to their sponsoring Yemeni Government ministries and institutions to apply their skills. At the end of FY 1994, 56 remained in training.

Donor Coordination. The donor community provides significant support to Yemen's health and population sector. Donor assistance is primarily focused on primary health care and population and family health programs. Principal donors working in this area are the World Bank, the World Health Organization, UNICEF, UNFPA, Germany and the Netherlands. USAID not only maintains regular one-on-one contact with these donors but attends quarterly coordination meetings chaired by the United Nations. UNFPA is currently the only donor supplying public sector facilities with contraceptives. USAID coordinates all of its population activities with UNFPA in order to maximize contraceptive access in project areas. Likewise, data collected through the Dutch-supported social research and women's study unit at Sanaa University provides information that assists USAID in deciding the types of population and family health interventions it will undertake. In coordination with the World Bank's women and girls education program, USAID is able to identify young educated women that can be trained in USAID-sponsored primary health care programs for placement in rural health facilities.

Constraints. Yemen continues to pass through a series of political upheavals and national disasters that have serious effects on its economic development efforts. It still suffers from its Gulf crisis stance in 1990-91, having lost both donor assistance and a major source of foreign exchange in the form of remittances from Yemen's large work force abroad which was repatriated. Locusts, an earthquake and a flood have required international interventions and sapped Yemen's own resources. The repercussions of the recent Yemeni civil war, both politically and economically, are still being assessed. While life is returning to normal, the future likely holds some political reshuffling and changes in ministry leadership. Also, the civil war, at this time, has almost eliminated the influence of Yemen's second political party, the southern-based socialist party, and greatly increased the power of the Moslem religious and conservative Islam party. Yemen's president already has expressed alarm over the increased influence of fundamentalism in Yemen.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$2,750,000).**

**Cross-cutting Issues (\$640,000 of which \$500,000 is Economic Growth and \$140,000 is Democracy).**

Improved accountability, responsiveness, and efficiency of Yemeni development institutions (\$500,000 for Economic Growth).

In tandem with the strategic objective discussed above, USAID is also building the institutional capacity of those government organizations and NGOs that provide services in order to assure their long-term sustainability and in order to empower women to participate in the economic development process. This is being done in two ways: First, direct support is given to specific organizations implementing USAID projects. Secondly, more general support is given to other development institutions that, while not implementing USAID projects, have an influence on the success of the strategic objective. The latter is done principally through focused training programs. USAID will continue its very successful participant training program, targeted to support the SO as well as providing scholarships for training in management-related areas. Ten graduate degree scholarships are offered each year in the general academic areas of health and population policy formulation, planning, administration, and management. The specific development sectors where these scholarships are being applied are health, population, nutrition, women in development, education, governance, and democracy. At least 30% of all scholarships are reserved for women.

Building government institutions (\$140,000 for Building Democracy).

One of the Agency's goals is to foster the transition to democratic societies. Yemen has singlehandedly made a remarkable democratic transition, joining North and South Yemen into a single, democratic state, despite massive economic dislocations and a costly civil war. Besides the intrinsic value that the USA places on democracy as a form of government, this development supports vital US interests in the region. A democratic Yemen serves to enhance its internal stability and serves as a regional role model. US support for this effort demonstrates its commitment to those states engaging the process of democratic transition. To address these dual concerns, USAID will develop proposed democracy and governance activities as a result of an assessment carried out in early January 1995. Probable activities include support for strengthening the parliament and working with the bar association to expand access by women, develop the compilation of case law, and establish procedures to standardize legal proceedings.

### **Other Donor Resources Flows.**

In FY 1993 and FY 1994, the United States provided approximately 2.1% of total donor funding. The leading donors were the World Bank, the Netherlands, Japan, Germany, and France. The following is a brief summary of the resource flows and their prime focus: (1) World Bank (all loans): agriculture and fisheries - \$160.3 million; petroleum, energy and water resources - \$57.1 million; infrastructure, roads, bridges, etc. - \$89.8 million; social services (health) - \$119.1 million. (2) Germany: \$34 million in the areas of human resources development and humanitarian relief. (3) The Netherlands: \$25 million in the areas of administration, natural resource development, human resources development, agriculture, forestry, fisheries, infrastructure improvement, industry, social development, and health. (4) Japan: \$20 million in the areas of administration, natural resources development, industry, social development, and health. (5) France: \$14 million in the areas of human resources development, agriculture, forestry, fisheries, transport, communications, and health.

**YEMEN  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objective</b>					
Increased participation by Yemeni women and their families in expanded health and population services in project areas.	2,250,000	6,575,000			8,825,000
Cross-cutting issues: Improved accountability responsiveness and efficiency of Yemeni development organizations.	500,000			140	640,000
<b>Total</b>	<b>2,750,000</b>	<b>6,575,000</b>		<b>140</b>	<b>9,465,000</b>

USAID Representative: William D. McKinney

## ASIA AND THE NEAR EAST REGIONAL ACTIVITIES

FY 1996 Development Assistance Fund Request . . . . . \$38,734,000  
FY 1996 Economic Support Fund Request . . . . . \$34,810,000

The Asia and Near East (ANE) Regional portfolio provides region-wide reinforcement to USAID bilateral strategies in economic growth, including HIV/AIDS prevention, environment and population. The portfolio is managed on a regional basis for reasons of economies of scale, staff savings, or administrative convenience. ANE Regional funding is allocated to USAID's Global Bureau where there are needed technical services in the areas of economic growth and democracy. The portfolio includes regional Economic Support Fund (ESF)-financed activities and residual activities of recently closed field programs.

### The Development Challenge.

The ANE region is one of the world's most diverse and dynamic. It is characterized by rapid economic growth and industrialization as well as high levels of poverty, high population growth rates and urban migration, and increasing environmental and industrial pollution. The region also includes some of the most water-short countries on earth. The high population growth rates exacerbate the acute shortage of freshwater supplies and degradation of water quality, particularly in the Near East countries.

The development challenge for countries in Asia is to reconcile two potentially conflicting goals: (a) sustaining large increases in economic activity and growth; and (b) improving environmental quality. In the Near East, management of water resources must be improved and effective mechanisms to manage shared water developed. Countries in the ANE region, as a whole, must find ways to make fundamental trends in economic growth and population growth reduction more sustainable, while, at the same time, reducing increasing trends in pollution, resource degradation, and resource inefficiency.

### BROAD-BASED ECONOMIC GROWTH (\$26,590,000, of which \$9,890,000 Development Assistance Fund and \$16,700,000 Economic Support Fund).

ANE Regional broad-based economic growth goals are pursued largely by efforts to combat the HIV/AIDS epidemic, which is spreading faster in the ANE region than in any other world region. Although little is known about HIV/AIDS in the Near East, it is likely that the epidemic is more established in the region than the low number of officially reported cases indicates. Funding for the ANE regional HIV/AIDS program will extend the scope of USAID centrally funded and mission bilateral HIV/AIDS programs. It will support interventions that limit cross-border HIV transmission; HIV prevention activities in nonpriority countries for other USAID HIV/AIDS programs; and innovative pilot projects that address regional AIDS issues. Progress to date includes the establishment of a system to monitor the status of the epidemic throughout the ANE region; the implementation of a program to reach high-risk, mobile populations in Laos and Nepal; education of policy-makers and business, religious and community leaders throughout Asia about the need for early prevention; and the development of bilateral HIV projects in three USAID missions. Under the Middle East Regional Cooperation (MERC) program, \$2,700,000 in Economic Support Fund resources will support projects which both increase broad-based economic growth and promote scientific and technical cooperation between Israel and neighboring Arab countries. A transfer of \$14,000,000 of Economic Support Fund resources to the Department of State will be utilized to make the annual U.S. payment to the South Pacific Forum Fisheries Agency under the Fisheries Treaty. Under this treaty, licenses to U.S. boats to fish in treaty waters will be effective for each year through FY 2002.

### STABILIZING POPULATION GROWTH (\$4,699,000 Development Assistance Fund).

Activities to help stabilize ANE regional population growth will include assistance for child spacing, training, education and communication and technical assistance for service delivery and data collection.

In the realm of research, funding will be used for basic population research, the analysis of population trends and comparison of population program performance among countries.

**PROTECTING THE ENVIRONMENT (\$32,685,000, of which \$23,885,000 Development Assistance Fund and \$8,800,000 Economic Support Fund).**

The United States - Asia Environmental Partnership (US-AEP) is an interagency initiative, sponsored by USAID, which directs environmental activities in Asia by engaging the strength of the U.S. Government, along with the academic, professional, and technological communities. The Partnership helps environmental technology cooperation and transfers between U.S. private and governmental entities and Asian governments and firms, bringing U.S. technology into partnerships for pollution prevention and environmental infrastructure. It also supports private, community and governmental cooperation for biodiversity conservation for improved resource and land tenure management, public awareness and education, and setting national priorities and carrying out environmental policy initiatives. Since its inception in 1992, the US-AEP contributed to more than \$360 million in actual sales, joint ventures and license agreements for U.S. firms. The US-AEP has obtained matching contributions and pledges of support in excess of \$126 million. Under the US-AEP's Biodiversity Conservation Network, six of a planned 18 implementation grants have been awarded to promote enterprise-oriented approaches for community-based conservation efforts. The US-AEP environmental improvement project with the Association of Southeast Asian Nations (ASEAN) works to develop partnerships addressing transnational solutions to the problems of industrial and urban pollution resulting from rapid growth in the six ASEAN countries: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.

Water resource dispute resolution mechanisms within and between countries are essential if peace in the ANE region is to be preserved. Economic Support Fund environmental funds will provide support to develop effective mechanisms to manage shared water resources in the region, particularly in the Middle East areas of Jordan, the West Bank and Gaza, and Egypt. Assistance will be provided to parties in the region to resolve specific water disputes through technical assistance, workshops, seminars, and short-term activities which contribute to the dispute resolution process. Economic Support Fund resources also will finance Middle East Regional Cooperation (MERC) program activities designed both to solve common environmental problems and to foster scientific and technical cooperation between Israel and participating neighboring Arab countries.

**BUILDING DEMOCRACY (\$9,570,000, of which \$260,000 Development Assistance Fund and \$9,310,000 Economic Support Fund).**

For Asian countries, \$260,000 Development Assistance Fund resources will support regional efforts promoting the development of democracy and governance, including fostering a strengthened civil society, increased citizen participation (especially of women), labor forums or the broadening of NGO empowerment. For Southeast and East Asian countries, \$8.81 million in ESF funding is proposed for democracy and governance activities primarily focused on increasing NGO participation in the development process.

**Residual Activities of Closed Field Programs.**

The Afghanistan program was closed in FY 1994. Residual responsibilities for two grants to United Nations agencies for removal of land mines and for immunization have been transferred to the USAID Mission to Pakistan and will be transferred to Washington when the Pakistan mission closes.

The Pakistan program will close in FY 1995, and the Oman program will close in FY 1996. Residual responsibilities for these programs, including closing out construction activities, will be transferred to the ANE Bureau when the field missions close.



The South Pacific Regional program was closed in FY 1994. All residual responsibilities except for those associated with U.S. participation in the South Pacific Forum Fisheries Treaty (discussed under "Broad-based Economic Growth" above), including closing out participant training and minor construction activities, have been transferred to the USAID Mission to the Philippines.

The Thailand program will close in FY 1995. Residual responsibilities, including for the U.S.-Thailand Partnership Project which transfers U.S.-Thai environmental cooperation activities to a private foundation, will be transferred to USAID's Regional Support Mission in Bangkok when the Thailand program closes.

The Tunisia program will close in FY 1995. Residual responsibilities for the Housing Guaranty (HG) program in Tunisia will be transferred to the USAID regional housing office in Morocco when the Mission closes, and other residual responsibilities will be transferred to the ANE Bureau.

**ASIA AND THE NEAR EAST REGIONAL  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>Strategic Objectives</b>					
<b>1. Provide Field Support Dev. Assist. ESF</b>	2,970,000	4,699,000		260,000 8,810,000	7,929,000 8,810,000
<b>2. Reduce AIDS Dev. Assist.</b>	6,920,000				6,920,000
<b>3. Support Middle East Geopolitical Interests Dev. Assist. ESF</b>	2,700,000		2,630,000 8,800,000	500,000	2,630,000 12,000,000
<b>4. Foster Solutions to Environmental Problems Dev. Assist. ESF</b>	14,000,000		21,255,000		21,255,000 14,000,000
<b>Total</b>	26,590,000	4,699,000	32,685,000	9,570,000	73,544,000
<b>Dev. Assist.</b>	9,890,000	4,699,000	23,885,000	260,000	38,734,000
<b>ESF</b>	16,700,000		8,800,000	9,310,000	34,810,000

## EAST ASIA REGIONAL

**FY 1996 Development Assistance Fund Request: . . . . . \$3,000,000**

East Asia, encompassing countries from Japan to the border of India, is undergoing a rapid modernization which will affect the lives of 2 billion people. The impact of this transformation will, within 25 years, involve 7 of the world's 10 largest economies. Within a decade, East Asia is likely to surpass Europe in terms of America's overseas strategic interests.

Despite its rapid development, Asia's boom has been extraordinarily uneven. The region now possesses five of the seven most polluted cities of the world. And some of the countries in the region remain among the poorest in the world, such as Mongolia, Cambodia, Laos, Vietnam and Burma. Only Thailand, where USAID is closing out its program, has fully shared in the region's growth. This juxtaposition of development needs and strategic interests provides USAID with a significant opportunity to shape future events in this vital part of the world.

FY 1996 represents an important transition year for USAID in the East Asia region. By the end of FY 1995, the highly successful 43-year old Thai bilateral assistance program will have formally been closed out,<sup>1</sup> and the new USAID Regional Mission for East Asia will have started implementing its first strategic plan for regional support operations and limited regional programming. This strategy is one of USAID's many efforts to implement recommendations in the Administration's *Report on Reinventing Government*.

As an approach to cost containment, consistent with maximum program effectiveness, USAID has developed regional support strategies. Many functions USAID performs in the region do not necessarily require the full-time presence of a U.S. direct-hire employee. These functions include: sectoral assessments, pre-feasibility studies, project design, strategic programming and monitoring design, selected project implementation support, selected program reporting support, project evaluation, general monitoring of country performance and certain administrative functions. These services can be provided more cost-effectively from a central location because of economies of scale. Furthermore, by locating this centralized facility in a country with a plentiful supply of highly educated and relatively inexpensive workers, much of the burden of this work can be executed by a skilled cadre of local employees who are supervised by a critical mass of U.S. employees. USAID is testing the cost-efficiency, effectiveness and feasibility of a regional approach to delivering financial, legal, administrative, and program services as compared to both in-country and Washington-based delivery.

### **The Development Challenge.**

As an area that accounts for more than a third of the world's population, East Asia defies generalizations. There are a number of overall trends in the region, including: (a) rapid, export-led economic growth, (b) increasing democratization, (c) improved health and social welfare, including increased literacy and longer life expectancies, (d) increasing concern over environmental issues, and (e) declining fertility rates. But the performances of several East Asian countries defy these trends. With per capita incomes that are generally believed to range between \$100 and \$400, Burma, Cambodia, Laos, Mongolia and Vietnam are among the poorest nations of the world. The situation is

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<sup>1</sup> With the exceptions of the "graduation model" U.S.-Thai development partnership project, the HIV/AIDS education program, the university linkages program and the agricultural research program which end in FY 1996 and the housing guaranty program which ends in FY 1998.

particularly grim for Mongolia, which has plummeted from the moderate-income ranks to one of the world's poorest countries since the collapse of the Soviet Union. Of the countries served by the USAID regional mission, only Thailand, with a 1992 per capita income in excess of \$1,800, has progressed well into the ranks of the moderate-income countries.

With regards to political development, Thailand, Mongolia and Cambodia have participated in the trend toward increasing democratization while Burma clearly has not. Even Cambodia's very stability is extremely tenuous and could collapse in the face of the continued threat of the Khmer Rouge. Similarly, progress toward democratic liberalization is less certain under the stable but authoritarian regimes of Laos and Vietnam. Governments in those two countries have granted increasing economic freedoms to their citizens, while remaining one-party states that tolerate little dissent.

Although the seriousness of environmental problems is becoming increasingly apparent in most countries in the region, little effective action has been taken with the partial exception of Thailand, where degradation still outpaces efforts for improvement. Progress in containing population growth follows a similar pattern. USAID is attempting to address several problems in this region, from environmental degradation to the looming HIV/AIDS crisis, from agonizingly slow democratization to dramatically unequal income distributions, from alleviating widespread poverty to easing the shift toward free markets.

To address these issues USAID focuses on three strategic objectives: (1) improve the health and productivity of young men and women, particularly working parents, in the East Asia region through HIV/AIDS and sexually transmitted disease prevention; (2) increase the number and effectiveness of institutions, particularly at the local level, to protect people and the environment from degradation and disaster; and (3) increase the number and effectiveness of community organizations working to make national and local levels of government in East Asia more accountable and responsive to the needs of its citizens, particularly women and the poor. A fourth strategic objective, which focuses on family planning and child survival, will be addressed through the use of prior-year funds. USAID believes that the development problems identified under these strategic objectives can best be addressed through regional approaches: the HIV/AIDS problem knows no borders and threatens to engulf the region; area environmental problems, such as deforestation, degraded watersheds and reduced biodiversity have common, region-wide origins; and the democracy strategy creates opportunities for improved programmatic efficiency and effectiveness by bringing people from the region together for training and the exchange of ideas.

#### **Strategic Objectives (SOs).**

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$2,000,000).**

**SO 1. Improve the health and productivity of young men and women, particularly working parents, in the East Asia region through HIV/AIDS and sexually transmitted disease prevention (\$2,000,000).**

The rapid growth of HIV/AIDS in East Asia threatens economic gains already made in the region and could undermine the beginning efforts toward sustainable development in the region's poorest countries. As governments of the region are beginning to recognize the potential impact of this threat, they are seeking assistance to develop approaches for prevention and control of the disease. USAID will work through PVOs, primarily U.S.-based, to develop HIV/AIDS awareness and public information programs and help donor countries analyze and implement policy alternatives to effectively control the spread of the epidemic.

Activities. USAID will provide grants to PVOs for education and policy work in HIV/AIDS. In addition, USAID will support targeted training and technical assistance for key government officials and private leaders to enhance public awareness and strengthen HIV/AIDS policies in the region.

**Indicators.** USAID will monitor HIV/AIDS reporting statistics and HIV/AIDS country program and policy changes which occur as a direct result of USAID intervention. In addition, USAID will report on training supported.

**Feasibility and Cost-effectiveness.** USAID is prohibited by law and policy from working directly with several governments in the region. Grants through PVOs allow USAID to assist AIDS prevention and control in these countries. In addition, the regional nature of this approach will capitalize on economies of scale, which have a regional and global impact from cooperation among countries of the region, and demonstration impact of successful interventions in neighboring countries to maximize impact at the lowest possible cost.

**Progress in 1993-1994.** USAID has already taken significant steps to address HIV/AIDS concerns in the region. Through the regional HIV/AIDS office in Bangkok, assistance is being provided in Thailand and Laos. Through separate PVO grants, HIV/AIDS awareness training has already begun within the population of displaced Burmese.

**Donor Coordination.** The regional mission in Bangkok is working closely with governments of the region to ensure that HIV/AIDS activities are provided within the context of overall donor assistance in the sector for East Asia. In addition, the regional mission works closely with bilateral programs in Cambodia and Mongolia and State Department representatives in other countries of the region to ensure that regional programs complement bilateral assistance activities.

**Constraints.** Constraints to HIV/AIDS assistance in East Asia include the weak government structures in the region, chronic budgetary deficits for national programs, and the inability to provide direct assistance to several governments of the region.

#### **PROTECTING THE ENVIRONMENT (\$500,000).**

**SO 2. Increase the number and effectiveness of institutions, particularly at the local level, to protect people and the environment from degradation and disaster (\$500,000).**

East Asia's rapid economic growth has occurred without adequate controls to protect the environment and without a full costing of industrial development, especially in terms of environmental impact. As a result, pollution is increasing at an accelerated pace which, if it continues unchecked, will have severe negative global implications.

**Activities.** USAID will provide grants to PVOs to engage in environmental education, advocacy and policy work, particularly at the local level. In addition, USAID will support targeted training and technical assistance for key government officials and private leaders to enhance public awareness and strengthen environmental advocacy and policies in the region.

**Indicators.** USAID will monitor environmental status statistics and environmental country program and policy changes which occur as a direct result of USAID intervention. In addition, USAID will monitor and report on training supported.

**Feasibility and Cost-effectiveness.** Given legal and policy constraints to working directly with several governments in the region, USAID will provide grants through PVOs to promote environmental education, advocacy and policy change. The regional nature of this approach will capitalize on economies of scale, enhanced impact from cooperation among countries of the region, and demonstration impact of successful interventions in neighboring countries to maximize impact at the lowest possible cost.

**Progress in 1993-1994.** USAID has already supported environmental groups in Thailand and other countries in the region through the U.S.-Asia Environmental Partnership, its ASEAN environmental

program, and bilateral support programs. Environmental activities will be limited in scope, but will be addressed toward areas in which significant impact can be expected.

Donor Coordination. The regional mission in Bangkok is working closely with governments of the region to ensure that environmental assistance is provided within the context of overall donor assistance in the sector for East Asia. In addition, the regional mission works closely with bilateral programs in Cambodia and Mongolia and State Department representatives in other countries of the region to ensure that regional programs complement bilateral assistance activities.

Constraints. Constraints to environmental assistance in East Asia include the weak government structures in the region, chronic budgetary deficits for national environmental programs, corruption which permits establishment of environmentally unsound enterprises, and USAID's inability to provide environmental assistance to several governments of the region.

#### **BUILDING DEMOCRACY (\$500,000).**

**SO 3. Increase the number and effectiveness of community organizations working to make national and local levels of government in East Asia more accountable and responsive to the needs of its citizens, particularly women and the poor (\$500,000).**

Many of East Asia's governments continue to operate in an adversarial relationship with their citizens or in a relationship in which the views and wishes of the citizens are neglected. Disadvantaged groups, especially women and the poor, are frequently ignored in governmental decision-making.

Activities. USAID will provide grants to PVOs to work, at both the national and local levels, to improve the communication between citizens and government and to promote more accountable and responsible governmental functioning. Focus will be on support for education, advocacy and policy work which improves the functioning of government and broad-based citizen participation. In addition, USAID will support targeted training and technical assistance for key government officials and private leaders to enhance governmental functioning, advocacy and citizen-oriented policies across the region.

Indicators. USAID will monitor country-level governmental program and policy changes which occur as a direct result of USAID intervention. In addition, USAID will monitor and report on training supported.

Feasibility and Cost-effectiveness. Given legal and policy constraints to working directly with several governments in the region, USAID will provide grants through PVOs to promote participation, public education, advocacy and policy change. The regional nature of this approach will capitalize on economies of scale, enhanced impact from cooperation among countries of the region, and demonstration impact of successful interventions in neighboring countries to maximize impact at the lowest possible cost.

Progress in 1993-1994. USAID has already supported democracy PVOs such as The Asia Foundation to promote participation and advocacy activities in the region. Bilateral programs in Cambodia, Thailand and Mongolia address participation by women and the poor. Democracy-related activities will be limited in scope, but will be addressed toward areas in which significant impact can be expected.

Donor Coordination. The regional mission in Bangkok has undertaken an assessment of democracy and governance activities in the region to ensure that planned assistance is provided within the context of overall donor assistance in the sector for East Asia. In addition, the regional mission works closely with bilateral programs in Cambodia and Mongolia and State Department representatives in other countries of the region to ensure that regional programs complement bilateral assistance activities.

**Constraints.** Constraints to democracy and governance assistance in East Asia include the negative image of democracy and governance programs held by several governments in the region, the weak government structures in the region, chronic budgetary deficits for national programs (particularly administrative reform programs which by their very nature are costly), corruption (especially as related to rent-seeking behavior of government officials), and USAID's inability to provide direct assistance to several governments of the region.

**Other Donors**

USAID assistance to displaced Burmese living on the border accounts for about 16% of all such assistance. USAID is not a major donor in Vietnam and Laos, and by 1996, it will no longer be a significant donor in Thailand. USAID is a significant donor in both Cambodia and Mongolia, although it plays a lesser role than the World Bank, the Asian Development Bank, the International Monetary Fund, and the Japanese. In general, the previously cited multilateral organizations including the United Nations Development Program plus the Japanese, French, Germans, Swedes, and Australians are the most significant donors in the East Asia region.

**EAST ASIA REGIONAL  
FY 1996 PROGRAM SUMMARY**

Strategic Objectives	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
1. Improve the health and productivity of the young	\$2,000,000					\$2,000,000
2. Support environmental advocacy groups			\$500,000			\$500,000
3. Support democratic community organizations				\$500,000		\$500,000
<b>Total</b>	<b>\$2,000,000</b>		<b>\$500,000</b>	<b>\$500,000</b>		<b>\$3,000,000</b>

RSM/EA Mission Director: Linda N. Lion

**EUROPE AND NEW INDEPENDENT STATES**

Thomas A. Dine  
Assistant Administrator  
Bureau for Europe and the New Independent States



## EUROPE AND THE NEW INDEPENDENT STATES

FY 1996 Assistance to Central and Eastern Europe Request . . . . .	\$ 480,000,000
FY 1996 Assistance to the NIS Request . . . . .	\$ 788,000,000
FY 1996 Economic Support Fund Request . . . . .	\$ 149,600,000
FY 1996 Development Assistance Fund Request . . . . .	\$ 5,400,000

U.S. assistance programs in Europe and the New Independent States are uniquely structured to meet U.S. foreign policy challenges in the region. Overseen by two legislatively-mandated State Department Coordinators, one for Central Europe under the Support for East European Democracy (SEED) Act, and the other for the New Independent States of the former Soviet Union under the FREEDOM Support Act, the program is implemented by some 12 U.S. Government agencies. USAID manages the largest share of the program by far. A major element of the assistance to Russia, the Gore-Chernomyrdin Commission (GCC) is under the direct leadership of the Vice-President. The United States has provided additional funding under a separate appropriation (the Nunn-Lugar Act) for demilitarization and the disposal of weapons of mass destruction in Russia, Ukraine, Belarus and Kazakhstan. United States assistance to Cyprus and Ireland promotes social reconciliation through economic development. Assistance to Turkey supports an important ally of the United States.

### National interest

The outcome of the political and economic changes underway in the 27 countries of Central Europe and the New Independent States is profoundly important to the United States. The Cold War is over, the Soviet Union is dissolved and its Third World adventures in Africa, Asia, and Latin America are at an end. The failure of reform across the vast area of Central Europe and the New Independent States, however, could afflict the United States and its allies with new, unwelcome challenges from potentially unfriendly nuclear-armed powers and with high defense, security and international law enforcement costs. Another major cost of such a reversal would be a loss of economic opportunities created by expanded markets for U.S. business.

U.S. self-interest demands that we pursue changes that will make Russia and other formerly communist countries cooperative partners in meeting global challenges. Only if economic and political liberalization becomes irreversible can we fully reap benefits commensurate with 40 years of Cold War sacrifices. Benefits of reforms already include:

- The level of direct threat to the United States and our European allies has declined dramatically because of the fall of totalitarian communism.
- U.S. trade with the region has more than doubled since 1986 and has the potential to multiply dramatically. Private U.S. investment, previously nearly non-existent, has risen to nearly \$14 billion, principally in Central Europe.
- Increased security through reduction of nuclear and conventional threats has freed up resources and created opportunities for new investment in our own future at home and abroad. The "peace dividend," estimated to be as high as \$230 billion in reduced defense costs since 1990, permits greater focus on our domestic needs.
- In place of uniform hostility and mutual assured destruction, new relationships are evolving with the New Independent States and Central Europe for global problem-solving.

U.S. assistance must continue to help consolidate these gains, by empowering citizens of Central Europe and the New Independent States to renegotiate the role of the state in their lives and to seize the initiative to start new businesses and improve their communities. The United States and the rest of the nations of the interconnected global economy will be vastly better off if the nations of Central Europe and the New Independent States accelerate their transitions to democratic political systems and market economies.

### The Development Challenge

For the United States, Central Europe and the New Independent States (NIS) pose a wide variety of unique challenges to our global assistance policy of promoting sustainable development. These are not underdeveloped countries, but rather they have been misdeveloped and are out of sync with international market forces. The challenge is not to develop human and physical infrastructure, as educational levels are for the most part relatively high, and lack of physical infrastructure is generally not the major obstacle to growth. The task is rather to assist these countries with the intellectual concepts needed to redirect their resources toward open and participatory political and economic systems. The need in most countries is not for a protracted program of economic assistance, but for strategically targeted support during a critical period of economic and political transition, followed by an appropriate phaseout. The challenges vary widely among Central Europe's Northern and Southern tiers, Russia, Central Asia and Ukraine, and the conflict-torn areas of the Caucasus and Tajikistan. Each nation faces a different set of circumstances, some requiring only brief transitional assistance, others humanitarian and conflict resolution support, while some face longer-term development challenges.

The extreme centralization of the Soviet period has left a hard legacy. It has fueled centrifugal forces that retard the consolidation of modern independent statehood on a democratic basis. Each state must define anew what nationhood means. Leaders with uncertain mandates must struggle with the heavy inheritance from the past as they build new democratic polities, new market economies, new structures to ensure security. Peoples whose familiar moorings are frayed or disappearing must determine their destinies among a bewildering variety of old and new options. The potential for instability is high, but the possibility for better futures -- more secure, more democratic, more prosperous -- is also brighter than ever.

### Strategy and Objectives

The success of transition will depend primarily on efforts by the countries and peoples of the region. Past investments in people, production, and infrastructure have created the foundation for real growth, provided that laws, regulations, organizations, and attitudes can be reshaped to foster their efficient use. No single donor can provide the political will for governmental or market change, nor can it finance the massive investment needed to revitalize industry and infrastructure. USAID will, however, strategically support systemic change by helping develop the new institutional, policy, and legal frameworks that will enable these governments, private businesses and citizens to prosper in open democratic market economies. New businesses, non-governmental organizations, and individuals benefiting from these changes are becoming powerful constituencies for sustaining the reform process.

The SEED and FREEDOM Support Acts authorized programs designed to help formerly communist countries establish the underpinnings of democracy and a market economy. The programs are transitional in nature. Strategically, they seek to promote structural reforms that will make change irreversible. Assistance will be phased out based on progress in each country. As private ownership and other elements of the market system spread within former command economies, program emphasis is shifting to help restructure the social sectors to enable governments to deal with the human dimension of the radical economic dislocation caused by the disintegration of the communal

systems. Failure to recognize the serious short-term social costs of democratic and market changes and failure to deal with these consequences would endanger the future of continued economic and political reform in these societies. In some countries, such as Albania, Romania, and some parts of Central Asia and of the former Yugoslavia, there is a need for longer-term sustainable development assistance.

Programs have already begun to wind down in some countries of the Northern Tier of Central Europe. Except for a few limited regional activities, the Estonia and Czech Republic programs will phase out in FY 1996 and FY 1997, respectively. In the NIS, the proportion of FREEDOM Support Act funds going to Russia is being reduced, as a second wave of NIS countries institute economic and political reforms and can utilize well a growing proportion of total program funding. These shifts of resources will be monitored carefully to ensure that programs are not prematurely ended in individual countries before democracy and a market economy are placed on firm footings. The United States must remain prepared to continue the important task of helping these emerging democracies until the political and economic objectives of the program are secured. For example, Ukraine was initially slow to begin significant privatization and other fundamental economic reforms, but when it moved to a vigorous reform agenda supported by the IMF and the World Bank in late calendar year 1994, USAID was able to respond quickly with significant additional assistance.

ENI assistance programs have three strategic objectives:

1. ***Economic Restructuring:*** Foster the emergence of competitive, market-oriented economies in which the majority of economic resources are privately owned and managed.

Three critical processes must move concurrently throughout Central Europe and the NIS. The first is the demise of inefficient state structures that dominated production, distribution, and employment from Prague to Vladivostok. These state structures need to be dismantled, remade, or transferred to private hands to create the preconditions for growth. Second is the creation of laws and institutions critical to support and sustain a market economy. Markets without prudent regulation will not result in competition and transparency. Third is the emergence of new businesses (particularly small businesses) responding to market forces that will create jobs and meet the real demands of frustrated consumers.

USAID's challenge is to reinforce, strategically and tactically, these three dynamics of economic transition. USAID assists the transfer of state-owned assets to the private sector, helps establish more stable business environments, facilitates the expansion of private enterprise, promotes fiscal and financial sector reform, and supports the sustainable use of natural resources. In promoting improvements to the business environment, USAID-funded advisors, training and equipment are helping to draft policies, legislation, and regulatory procedures necessary to privatize government-owned assets, break-up monopolies, establish markets, and strengthen competitiveness.

2. ***Democracy:*** Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes.

Overall, the democracy and governance strategy for Central Europe and the New Independent States assists in the transformation of communist governments to pluralistic democracies; helps make government transparent and responsive to the public by creating checks and balances against the arbitrary power of political leadership and the state bureaucracy; and creates the legal and informational environments necessary to facilitate community initiative outside government and protect individual rights. USAID assistance supports program objectives in these areas: democratic political process; rule of law; decentralization of public administration to local governments; increased participation of citizens and nongovernmental organizations in political and economic decision making, and strengthening independent media. Portfolio activities in many sectors, such as environment, strengthen citizen participation in civil society and create non-governmental institutions and local

government fora where citizens can promote their concerns. The crucial challenge of growing crime and corruption receives direct attention through assistance of U.S. law enforcement agencies and through USAID's efforts to build prosecutorial and other functions critical to the rule of law.

**3. *Social Sector Restructuring: Strengthen the capacities to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period.***

The transition to market-based economies and democracy is threatened by "economic pain." Communism bankrupted the economies of Central Europe and the NIS and mortgaged away much of the future as countries depleted their natural resources and limited financial reserves to fund non-sustainable enterprises. When communism collapsed, it also brought forth the legacy of debt and inefficiency with which it had saddled the citizens of the region. As state-controlled production and distribution systems have collapsed, inflation has soared, industrial production has plummeted, and the delivery of state-subsidized social services has been interrupted. The only affordable and sure means of redressing this economic dislocation is to complete the transition to a market economy in which private businesses can create jobs, the real answer to these problems. Yet citizens of Central Europe and the NIS often view the reforms as the cause of their pain. Some backlash has been seen in election results and rising nationalism. USAID is helping these countries address immediate humanitarian needs of the most vulnerable groups, improve women's health and reducing the incidence of abortion by expanding access to modern family planning and restructure social sector systems to place them on a more sustainable basis.

The Central Europe and NIS portfolio has three program objectives in this area:

- (1) providing humanitarian assistance, particularly in Tajikistan, countries of the former Yugoslavia and the Caucasus, to meet emergency needs of women, children and the elderly;
- (2) developing regional or municipal-based models to restructure selected social service systems, to target limited budgets on vulnerable groups, while private sector systems improve the quality of women's health and other services; and
- (3) demonstrating ways of alleviating unhealthful environmental problems.

The environment, a cross-cutting concern: Attention to environmentally sound growth is an important cross-cutting theme affecting all objectives. Under communism, the entire region long neglected this issue, and there is a serious need to support the policy, legal, regulatory and institutional reforms necessary to address environmental concerns. Nongovernmental organizations need strengthening to keep governments focused on the environment, in order to reduce threats to human health and to promote sustainable natural resource management. In the long run, a market economy will remain viable and publicly supported only if it operates on a sustained basis in a way that protects its environment, utilizes resources wisely and treats people with decency and respect.

**Program Focus and Expected Results**

Europe and NIS country strategies concentrate on core reform areas that are fundamental to creation of democratic market economies: privatization; development of legal, regulatory and institutional mechanisms to support private business; development of financial markets; fiscal reform; democratic political process, rule of law, and local government capability; environmental risks to human health; more efficient targeting of benefits and delivery of essential social services; and promoting recovery from civil strife. The pace of the transition will continue to vary from country to country in the region, as will the sequencing and relative emphasis of these priorities. But the ultimate goal of U.S.

assistance will be constant: to put in motion a process of fundamental and self-sustaining change and then to phase out assistance rapidly. USAID is working in tandem with other U.S. Government agencies that receive funding through the FREEDOM Support Act to ensure that programs are mutually reinforcing and more closely coordinated. Technical assistance and commodities provided with FY 1996 funding will contribute to achievement of the following:

- As a result of our privatization assistance, there will be significant increases in the proportion of productive capacity in private hands and in number of people across the region that are participating in securities ownership. Land and housing privatization is a difficult issue to work on, but since it is fundamental to ensuring broad-based popular support for reforms, and provides collateral for the development of market-based commercial lending, we will complete the testing of a number of pilot approaches to help accelerate this process by early 1996, and implement the most promising ones more widely thereafter.
- In the financial sector, a critical mass of commercial bank privatizations and systems for bank supervision in Central European countries will be completed by the end of 1996. The number of institutions providing financing for mortgages and municipal infrastructure will be expanded. Functioning over-the-counter securities markets and stock exchanges will be established in Russia and in Central Europe by the end of 1996, and this will better mobilize domestic savings and international investment to raise capital for businesses.
- Pilot demonstrations in environmental waste minimization and energy efficiency are in place in most countries, and over the next few years we will promote their replication. Results on reducing environmental risks to human health will take longer to achieve. By end of 1996, we will introduce key technologies on a pilot basis and facilitate trans-national agreements on approaches to multi-national pollution problems, at least in Central Asia and on the Poland-Czech border.
- In Central Asia, election laws and procedures that meet acceptable international standards will be in place by mid-1996, and by end of 1996, new or revised codes that protect individual rights and legislation that provides for an independent judiciary should be in place by end of 1996. In Russia, independent television media will be well established, and accessible to a large share of the population in 1997, and legislation and judicial training will also be in place by 1997 to promote judicial independence thereafter. In Central Europe, where independent print media are already well developed, and free and fair electoral processes and parliamentary structures are well established, judicial training and judges' associations will also be strengthened to promote greater judicial system independence.
- In Central Europe, local government capabilities will also be strengthened, especially fiscal management (revenue generation and budgeting), transparent systems allowing procurement from the private sector will be in place, and local governments will be successfully lobbying for a fair share of central fiscal revenues and managing social services that have been decentralized to the local level, at least on a pilot basis.
- Across Central Europe and the New Independent States a core group of diverse pluralistic non-government organizations will be established in almost all of the countries, and in most cases we expect them to begin to show evidence of their effectiveness in lobbying for changes in legislation, regulations, and policy at both the national and local levels.
- Early ages of retirement, poorly targeted welfare systems, and lack of modern distribution through a banking system makes pension and welfare payments systems more costly than is now affordable. In Poland, Hungary, Slovakia, and Russia, we will develop and test approaches to revising and better targeting benefit levels, modernizing and decentralizing services to local government level to realize significant cost-savings, and eliminating non-

essential services unless they can be privately provided. In these countries, on a pilot basis, we will introduce a greater private sector role and new approaches to such income transfers as pensions, unemployment compensation, and welfare, and services such as health care.

Despite the regional nature of the Central European and NIS programs, the results that will be achieved with FY 1996 and future year funding will vary significantly from country to country. USAID is in the process of establishing country-specific targets for all country programs in the region. Field missions will report semi-annually on progress toward achievement of those targets, and program funds will be directed to where important outcomes are most likely to be achieved. The first complete set of these country-specific targets will be in place in April, 1995, and an illustrative sample of them can be found in the country narratives of this document.

### Results Achieved

But results are already being achieved across the portfolio of assistance activities in the region. Private ownership has taken off, and private production now accounts for 50% of GDP in Russia and Poland, 65% in the Czech Republic and 55% in Hungary. Support for Russian privatization illustrates how USAID is helping to change the nature and orientation of transition economies in Central Europe and the NIS. USAID helped establish a nation-wide voucher system, which enabled about 70% of Russian industry to be privatized and 40 million Russian citizens to become shareholders. As a result of U.S. assistance, over 40% of the industrial labor force now works in the private sector, and 30% of Russian households own their homes.

USAID assistance with privatization and new private business start-up has contributed substantially to private sector growth in Central Europe and the NIS. An estimated 65% of Czech GDP is now produced in the private sector. The new private sectors of Hungary, Poland, Slovakia, Estonia, Latvia, Russia, Albania, and Lithuania each produce about 50%-55% of GDP. In remaining countries, the private sector share of GDP in mid-1994 hovered between 20% and 40%.

In the transition to democracy, USAID has contributed to the successful implementation of credible and effective elections across the region. Free elections, however, are no guarantee that the political reform process will be continued. Successful democratic transitions are the result of an array of institutional and societal reforms in the core areas of USAID's democracy program - democratic processes, the rule of law and judicial reform, and strengthening of local government and civil society, including independent media.

With USAID assistance, most parliaments in the Central Europe and many in the NIS have enacted critical political reforms, including the passage of new election laws, which help ensure fair and democratic elections. New constitutions and election and civil liberties laws have been adopted by parliaments in Russia, Kyrgyz Republic and Hungary. Judicial systems in Russia, Ukraine, Kazakhstan, and throughout most of Central Europe are becoming more professional, independent, and equipped to resolve private property and criminal justice issues. USAID advisors are helping to reform judicial procedures, train judges and lawyers, develop bar associations, and revamp law school curricula - with good results. USAID has supported the expansion of independent media throughout the region. Non-governmental organizations (NGO's) are flourishing in some countries and just beginning in others. Parliaments in the Czech Republic, Bulgaria and Poland have adopted new laws that strengthen public participation in environmental impact assessments. In the area of public administration, U.S. assistance is facilitating decentralization and increased transparency and accountability. For example, officials from major municipalities in Poland, Russia, Bulgaria, Czech Republic, and Romania benefit from pilot training projects designed to increase local governments' capacities to manage resources and provide public services.

Despite these successes, policy makers in European and NIS countries recognize that the transition to market-based economies is threatened by the legacies of the past. The bankruptcy and eventual

collapse of the previous system have, in most cases, resulted in many human dislocations wrought by inflation, unemployment, and the end of state-subsidized social services. However, public support for reform requires that people see that their current economic hardships will be addressed by the transition to a market economy.

In response, USAID's strategy has been to foster a mix of short, medium, and longer-term activities and policies in the social sector. Immediate humanitarian needs are addressed to mitigate hunger, winter cold, and other hardships in strife-torn Republics. Since the program's inception, USAID has coordinated with the U.S. Department of Agriculture in reaching well over 2 million people with essential food products. Epidemics of measles and other childhood diseases have been prevented by vaccination of over 500,000 children in Central Asia.

USAID is aware of the need these countries face to address economic hardship during the transition. The economic transformation process supported by USAID will for the long term provide the key to significant job creation in an expanding private sector. Rapid completion of this process is the most important approach to alleviating this economic hardship. Short-term efforts seek to address these concerns more immediately. In health, all USAID-funded medical partnerships report improved productivity in the provision of hospital services, while women's access to modern reproductive health services has been increased in the Central Asian Republics and Romania. New programs begin this year in Russia and the Ukraine. Environmental health risks in specific demonstration sites have also been significantly reduced through USAID assistance.

In the longer run, USAID is encouraging European and NIS governments to redefine their roles at national and local levels and introduce private sector concepts and management practices in the provision of social services and benefits. USAID-funded activities are demonstrating alternatives in health care financing in Albania, Bulgaria, Czech Republic, Hungary, Poland, Russia and Slovakia and are supporting policy dialogue at the national level for health care reform in Central Asia and Ukraine. USAID is also helping to redirect housing subsidies to the neediest in Russia, Poland, Slovakia, Kazakhstan, and Hungary. Results in housing reform in Russia and Hungary already show that the new market-based rents more than cover the cost of these targeted housing allowances to the poor.

At the same time, it is increasingly evident that crime and corruption pose potent threats to continued progress. USAID's initiative in this area includes support to criminal justice reform and funding for law enforcement work by other USG agencies.

Exchanges and training programs support reform efforts by building skills in specific technical areas. They also provide exposure to U.S. culture and values, U.S. business management practices and free market and democratic principles. Massive numbers of citizens of Europe and the NIS, exceeding those of the Marshall Plan days, are participating in U.S. Government programs implemented or financed by USAID.

Recent developments in the peace process in Ireland provide an improved environment for the success of on-going International Fund for Ireland efforts. On August 31, 1994, the Irish Republican Army (IRA) declared an end to 25 years of armed struggle. In the wake of the cease-fire, the two governments have taken several steps to advance the peace process; and the British government has begun to engage Sinn Fein, the political arm of the IRA, in roundtable discussions to continue the peace process.

#### Other Donors

The United States has provided nearly half of the official development assistance to Central Europe since 1989, and nearly a fifth of all official aid to the NIS. The other major donors are the World Bank, the European Bank for Reconstruction and Development, and the European Union.

The program in Europe and the New Independent States has demonstrated that close coordination with other donors and the multilateral banking community can leverage substantial resources to complement modest investments of U.S. resources. For example, USAID grant-funded technical assistance of about \$100,000 helped establish the basic legal and institutional framework for a \$15 million World Bank housing credit to Albania to complete 4,500 housing units that would be sold for ownership as condominiums. A \$1.3 million complementary package of technical assistance is being funded and managed by USAID to provide technical advice in banking and finance, procurement planning, housing operations management, and legal policy. USAID is providing technical assistance designed to help municipalities in Russia effectively utilize a forthcoming \$400 million World Bank Housing Sector Reconstruction Loan.

The USAID-funded Enterprise Fund in Poland set up the Polish Private Equity Funds to attract additional capital investment in Polish small and medium-sized businesses. The Fund's investment of \$50 million leveraged an additional \$100 million from the European Bank for Reconstruction and Development (EBRD), Kreditanstalt, Oesterreichische National Bank, and U.S. private investors, largely because those donors were impressed by the Fund's own track record in making over \$100 million in investments in a previously unfamiliar environment in Poland. The Polish-American Enterprise Fund also leveraged \$50 million from the EBRD for investments in mass privatization, and discussions are ongoing to leverage additional World Bank credit lines. Other Enterprise Funds are expected to draw private resources as well.

After accepting all the NIS as new members in 1992, the World Bank has entered into lending programs with all but Tajikistan and Turkmenistan. The Bank has had some difficulty implementing some programs. USAID-financed technical assistance has been an important mechanism for accelerating loan preparation and implementation in housing, energy and privatization. An energy sector grant in Ukraine closely complements work of the World Bank in power sector restructuring. USAID has accelerated World Bank and EBRD energy loans to Russia for gas distribution, to Armenia for power generation and to Georgia for thermal and hydro power.

Group of Seven (G-7) nations meeting at the Tokyo Summit in July 1993 created a \$3 billion special privatization and restructuring program for Russia. USAID's bilateral contribution, the Fund for Large Enterprises in Russia, is complemented by efforts of the EBRD and other donors. The EBRD has approved four regional venture funds, with G-7 technical assistance funds leveraging \$30 million in EBRD equity for each fund. The EBRD also funds half of a \$300 million Russia Small Business Fund to provide newly created small and micro enterprises in Russia with credit and technical assistance. USAID's initial \$2 million contribution helps fund a pilot program to test approaches for the full program.

The EBRD's Small and Medium Enterprise Fund provides similar lending in Belarus, Ukraine, Kazakhstan and Uzbekistan. In nuclear power safety, the EBRD administers the multinational Nuclear Safety Account, to which USAID has contributed \$14 million. This program funds immediate safety improvements in high risk reactors in Bulgaria, Lithuania, Russia and Ukraine.

The cost of building the foundations for a permanent peace in Bosnia will be in the billions of dollars. Most of it will have to come from the European Union nations and international financial institutions. For this to happen, the United States must lead. A U.S. contribution of \$60 million is proposed as an example to other donors.

#### FY 1996 Program

Under the Support for Eastern European Democracy (SEED) Act, \$480,000,000 is requested for Eastern Europe for FY 1996, of which \$246,000,000 is to complete the transition to a market economy, \$73,000,000 will be used to support the transition to democracy, \$101,000,000 is for



social sector restructuring and humanitarian relief, and \$60,000,000 is for the reconstruction of Bosnia.

USAID requests \$788,000,000 under the FREEDOM Support Act for activities in the New Independent States of the former Soviet Union. These funds will be allocated initially in the following manner against three strategic objectives: \$504,000,000 for economic restructuring support, \$148,000,000 toward democratic transition and \$136,000,000 for social sector restructuring and emergency humanitarian relief.

The Administration requests \$105,000,000 in Economic Support Funds and \$5,400,000 in Development Assistance Funds for Turkey, \$29,600,000 in Economic Support Funds for Northern Ireland, and \$15,000,000 in Economic Support Funds for Cyprus.

## ALBANIA

**FY 1996 Assistance to Central and Eastern Europe Request . . . . . \$ 31,000,000**

When democratic elections were held in March 1992, Albania, the poorest country in Europe, emerged from a 47-year legacy of almost total isolation and repressive communist dictatorship. The new government immediately embarked on an ambitious macroeconomic and structural reform program for which donor support continues to be critically needed. Supporting a peaceful and sustained democratic, and economic transition in Albania contributes to the U.S. foreign policy objective of promoting stability in the Balkans.

### **The Development Challenge.**

Albania faces all the challenges of an economy in transition from an authoritarian, command-driven system to one which is democratic and market-oriented. With a per capita gross domestic product (GDP) of approximately \$400, Albania also faces the developmental challenges common to many poor, developing countries.

The Albanian economy suffered a 50% decline in real output during 1990-1991, which included a 70% drop in industrial production and a 30% decline in agricultural output. Unemployment levels are very high, having peaked at about 40% in 1993 and currently standing at 20%-25%. Much of the economic collapse is attributed to supply and transport bottlenecks associated with collapse of the central planning system and to disruption associated with the spontaneous mass privatization and fragmentation of land. While much progress has occurred since 1992 in establishing democratic institutions, there have been increasing characterizations of the Albanian government as incompetent and corrupt. Institutionalizing certain democratic concepts -- rule of law, independence of the judiciary, executive oversight by the parliament, independence of the media, and decentralized governance -- is critical at this stage of Albania's development.

### **Strategic Objectives (SOs).**

USAID is pursuing the following strategic objectives in Albania.

### **ECONOMIC RESTRUCTURING (\$23,227,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$23,227,000).**

#### **(A) Agricultural sector restructuring.**

The agricultural sector, which constitutes over half of Albania's economy, continues to lead Albania's economic growth. Agricultural production increased by an estimated 13%-14% in both 1992 and 1993. Virtually all agricultural land is now in the hands of private farmers and is intensively cultivated. Farmers still face a number of problems in the agricultural sector which must be resolved if production increases are to continue: the generally poor state of irrigation infrastructure, lack of reliable supplies of quality fertilizer and other agricultural inputs, lack of new technologies, weak market access for their products, and the need for a viable land market in order to consolidate the small parcels which dominate Albanian agriculture. Farmers also need improved policies to promote markets and encourage sound environmental practices.

**Activities.** USAID, through an agricultural restructuring project, is training a policy unit within the Ministry of Agriculture and Food; developing Ministry capability to plan and carry out periodic crop surveys and to implement a market information system; establishing an agribusiness development center in cooperation with the Albanian private sector; assisting the Agricultural University of Tirana

with curriculum development in agricultural economics, upgrading library and laboratory facilities and faculty training; and implementing a pilot property registration system in three districts. In a separate effort focused on removing agricultural input bottlenecks, USAID is helping a nitrogen fertilizer factory become commercially viable so it can be privatized. A forestry project will address problems of deforestation, erosion and overgrazing through work with farmers and private tree nurseries, policy advice, and a public education campaign. USAID is also supporting the National Albanian Farmers' Union, founded to lobby for agricultural legislation and regulations which will serve, not harm, farmers' interests. USAID is supporting agribusiness development through the Farmer-to-Farmer program. Through a network of women dairy extension agents, training and workshops are being offered to more than 3,000 women dairy producers. To provide credit and equity capital to small and medium-sized enterprises in Albania, an Albanian-American Enterprise Fund will be established.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) land registration offices are open and functioning in three or more districts by the end of 1995; (2) successful lobbying by Albanian farmers and fertilizer dealers to remove the turnover tax on imported fertilizer by December 1995; (3) commercial lending to agricultural input dealers is increased from 190 million lek in 1994 to 500 million lek in 1995; (4) a nationwide study of agricultural marketing is completed and a strategy for private wholesale markets is developed by December 1995; and (5) Forestry Directorate personnel are providing extension services to farmers in four districts by December 1996.

Progress in 1993-1994. A strong agricultural sector response to economic reform measures, including land privatization and price reform, led the Albanian economy to impressive 11% and 8% real growth rates in 1993 and 1994 respectively, the highest in Europe. The agricultural sector itself grew an estimated 13%-14%. A number of USAID-funded projects have contributed to these results. USAID helped privatize the supply and distribution of agricultural inputs while also providing an initial supply of U.S.-sourced fertilizer. As a result, a network of knowledgeable, private sector agricultural dealers now is working hard to meet farmers' demand through domestic and international procurement of inputs. Improvements in crop yields have resulted. Within the framework of the agricultural restructuring project, a major piece of legislation, the Immoveable Property Registration Act, was drafted and subsequently enacted into law. This has rationalized the spontaneous privatization of about 95% of agricultural land. Surveying and mapping, resulting in the issuance of title to lands, were started in three pilot districts. The USAID-supported dairy training activity has given women dairy producers a new sense of empowerment; they organized informal credit channels and invested in new and improved small and micro dairy enterprises.

Donor Coordination. The World Bank, the European Union (EU) Phare and the British Government are collaborating with USAID in helping Albania establish a land market. USAID also is working with the UN Food and Agriculture Organization (FAO) in providing advisory support in agricultural policy. The German Government's support to the Agricultural University complements the USAID activities. USAID's forestry project will be coordinated with a broader World Bank environmental program for Albania.

Constraints. Severely underdeveloped transportation and communication infrastructure constrains agriculture and agribusiness development, as does collapse of the food processing industry. The introduction of land taxation at the same time a private property registration system is being developed could impede the latter effort. Farmers may not be willing to register their land in a timely and accurate manner if the tax collector is close at hand, and many refuse to accept marginal land which is unproductive.

(B) Promoting a market economy.

Albania continues to progress in undertaking macroeconomic reforms: including liberalizing prices, introducing a tax regime, strengthening budgetary management, reducing budgetary subsidies and

establishing a modern central bank. Major problem areas include a continuing high rate of unemployment, difficulty in tackling the privatization of large state-owned enterprises, and hesitancy in addressing an overhaul of the banking sector. Within this environment, USAID will focus increasing attention on financial sector reform and privatization.

Activities. USAID provides advisory support to the Ministry of Finance, the Bank of Albania (central bank) and to potential Albanian private banking institutions. Policy advice also is being provided to the National Agency for Privatization to accelerate privatization of large state-owned enterprises, as well as to the Ministry of Industry, Transport and Trade to support Albania's accession to the World Trade Organization (WTO), improve the investment legal and regulatory framework, develop policy related to intellectual property rights, and increase Albania's substantive participation in international trade and economic negotiations and agreements.

Urban land development and management and privatization and reform of housing and municipal services are the aims of an urban development activity being conducted in collaboration with the World Bank. USAID is funding a job skills training program to provide Albanians with skills relevant to a market economy. Through a university-to-university project, an MBA degree program is being introduced in the Faculty of Economics and Business at the University of Tirana. The historic American presence and high standards of vocational and business education are being restored at the Technical School of Tirana. The School's new Business Development Center will offer outreach services from the school to local businesses.

A new small business and microenterprise development project is providing assistance to branches of the Savings Bank in implementing a small and microenterprise credit program, which will be complemented by advisory services to small business entrepreneurs.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) private sector employment increases from 840,000 to one million Albanians by January 1996; (2) 100% of eligible housing is privatized by the end of 1997; (3) real GNP increases by at least 5% in both 1995 and 1996; and (4) one to two new private banks are licensed in 1995.

Progress in 1993-1994. In collaboration with the international donor community, USAID worked closely with a progressive, reform-minded government to push forward an ambitious economic stabilization and structural adjustment program. Key components included price and exchange system liberalization, fiscal consolidation, monetary restraint and a firm income policy. These were complemented by significant progress in constructing a legal framework for a market economy. Most prices have been liberalized and are now at or near international levels. Privatization of agriculture, housing, transport and retail shops is virtually complete, while options for privatization of large state-owned enterprises were considered. Results of Albania's efforts have been encouraging. According to European Bank for Reconstruction and Development (EBRD) estimates, the private sector share of GDP was approximately 50% in 1994. The aforementioned GDP growth was accompanied by annual inflation of approximately 30% in 1993, down from rates of 250% in 1991 and early 1992. Inflation in 1994 was further reduced to 24%. Direct foreign investment, which totalled \$39 million in 1993 and 1994, is steadily increasing. The lek remained stable and actually appreciated against the dollar in 1994. In the area of financial reform, the Government of Albania developed, for the first time, a national budget based on actual revenues and expenditures; a government securities market was established; and advisory assistance was provided in bank accounting systems and bank licensing.

Negotiations continued towards a joint venture agreement with a foreign partner for the privatization of Albchrome, the chromium parastatal and largest source of Albania's foreign exchange earnings. Economic and technical studies also were completed which determined the feasibility of privatizing, rather than liquidating, the Fier nitrogen fertilizer factory. Advisory support for restructuring the enterprise on an economic basis was provided, and the factory was able to sell all of its product to farmers.

A USAID-supported job skills training program has trained about 9,000 Albanians (many from families of former political prisoners) in small business management, computers, English, secretarial skills, auto mechanics, tourism and hotel management. The program was recently expanded to two additional cities (Shkodra and Korca), bringing the number of centers to five. A job placement and counselling service has been established in the Ministry of Labor, and the Ministry has assumed all Albanian personnel costs and financed the renovation of all training center facilities.

A condominium law was passed which will now provide the basis for tenants' associations to maintain public areas and grounds, and over 1,500 unfinished housing units were completed under the joint USAID and World Bank housing sector reform program.

Donor Coordination. Macroeconomic policy advice funded by USAID is closely coordinated with the International Monetary Fund and the World Bank. Privatization assistance in Albania has been carried out in connection with the EBRD, the World Bank, and the Italian Government. USAID technical assistance in reforming the housing sector helped leverage a World Bank loan to finance the completion of unfinished apartments to be sold to individuals.

Constraints. The potential for spillover of the conflict in former Yugoslavia into Albania in the form of refugee flows from Kosovo (or, worse, engagement of Albanian and Serb military forces in Kosovo or Albania) constrains international investor interest in the country. If significant refugee flows do occur, the effects on Albania's weak economy would be devastating. The lack of physical infrastructure (power, water supply, highways, telecommunications, etc.) also indefinitely constrain Albania's overall transition to a market-based economy. A weak and non-transparent legal system and continuing disputes between current and former land owners deter foreign investors.

#### **BUILDING DEMOCRACY (\$2,615,000).**

**SO 2. Foster democratic institutions through enhancing citizen participation in the democratic process, improving the institutional capabilities of parliament, and upgrading the judiciary and legal systems (\$2,615,000).**

The basic concepts underpinning democracy -- popular representation and participation in government, diversity in ideas and sources of information, the rule of law and respect for human rights, and civilian control of the military -- have been introduced in Albania, but support for their institutionalization is very much needed. After 50 years of centralized governance, Albania is just beginning to develop autonomous regional and local government. The Government of Albania is also stressing and developing civilian control and professionalism of its military. In November 1994, a referendum on a draft constitution was defeated by popular vote. Although initially shocked and dismayed by this defeat, the Government now recognizes it as a successful "test" of democracy: Albanians must, and will, no longer vote the way the Government would wish. To learn from this experience is good preparation for all political parties in looking ahead to the March 1996 general elections.

Activities. USAID efforts to increase popular representation and participation in government include: strengthening the capacity of the Albanian People's Assembly (parliament), particularly in understanding its role and responsibilities toward constituents; working directly with citizens and citizen groups to strengthen their ability to be active, effective participants in the political process; and supporting national, regional, district and local efforts by decentralizing government decision-making. USAID is providing technical assistance for legal and judicial reform, as well as helping the Albanian Government to define its role in the administration of justice and the protection of human rights.

A major new effort will support the efforts of Albanian nongovernmental organizations (NGOs) in specific dimensions of public advocacy (minority rights, environmental issues, economic issues, democracy, etc.) through the award of grants approved by the Embassy's Democracy Commission.

USAID projects, implemented through the U.S. Information Agency (USIA) are helping to develop civics curricula at the secondary level, developing English teaching materials, translating educational materials into Albanian, and arranging study tours and scholarships in the United States as various means of increasing Albanians' access to new information and ideas. Assistance is being provided to the broadcast media, essentially state-owned, to develop its independence and to build its capacity.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) free and fair elections take place in early 1996, as judged by impartial observers; and (2) all major parties have functioning offices in most important districts by early 1996.

Progress in 1993-1994. The capacity and capability of the Albanian Parliament to function more effectively and efficiently were reinforced by furnishing a new sound and electronic voting system, library materials, computers, ancillary office equipment and two offset printing presses. In six district-level workshops, parliament's deputies, parliamentary commissions and political parties were advised on how to develop and sustain closer contact with their constituents. The Society for Democratic Culture, an Albanian NGO receiving USAID support, effectively monitored the constitutional referendum and continued to address topical issues of the day through one-day seminars sponsored by its 36 branch clubs. A consortium of independent newspapers received a printing press, newsprint and training. Legal assistance was offered to the Ministry of Justice, the Parliament and the University of Tirana's Law Faculty in drafting and reviewing legislation. Both a Judges' Association and an Albanian Bar Association were founded with USAID organizational assistance.

Donor Coordination. USAID has developed strong contacts with the Albanian NGO community and also coordinates training activities with, and often through, the Soros Foundation. Other donor colleagues with whom USAID coordinates its activities include the German Government (GTZ) in the area of legal drafting and the EU Phare Program, the Organization for Security and Cooperation in Europe (OSCE) and the Council of Europe in the area of democracy-building.

Constraints. Continued commitment by senior government to democratic reform is critical if USAID democracy activities are to be effective. If conflicts with neighboring Greece, Former Yugoslav Republic of Macedonia, or Serbia and Montenegro occur, the government may divert attention from its domestic democratic reform agenda.

#### **SOCIAL SECTOR RESTRUCTURING: (\$5,158,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy and help sustain the neediest sectors of the population during the transition period (\$5,158,000).**

Albania is, and for the near future will remain, the poorest country in Europe. Prices for food, basic social services and public utilities, which were previously controlled or subsidized, now approach or have reached world market prices. In general, salaries have not kept pace. Remittances from abroad (an estimated 15% of the labor force is out of the country) provide critically important relief, but not all Albanians are lucky enough to have a supplemental source of income.

Activities. USAID's initial approach was to target the crisis areas of food shortages and a lack of basic medicines and medical supplies. With the recovery of the agricultural sector from its collapse in 1991-92, emergency food aid has not been necessary since early 1993. It was distributed, along with other donor food aid, through the Albanian Red Cross and the International Federation of the Red Cross. In response to urgent requests from the Ministry of Health, emergency shipments of medicines and medical supplies were provided to stock hospital stores and pharmacies throughout Albania.

The Bronx Municipal Hospital Center, the Ministry of Health, the University Hospital Center, the Maternity Hospital and the Trauma Hospital established a "partnership in health care" with a focus on

emergency medicine, women's health and health administration and management. Extensive in-country training in health care administration and management was offered to Ministry and hospital administrators, managers and financial officers. USAID is supporting the Center for Street Children in Tirana, where staff provide child care and counselling for children and parents in an effort to discourage public begging as an important, if not sole, source of family income.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) a new pharmaceutical procurement system, based on hospitals' group orders, results in better supplies and services for the patient-customer; (2) measurable lower rates of infection, morbidity and mortality by December 1997 as a result of health management and clinical improvements at the University Hospital Center; and (3) the Center for Street Children provides day care and counseling to about 50 children by late 1995.

Progress in 1993-1994. Under the PL 480 Title II program, the final shipments of foodstuffs, valued at \$2.6 million, were distributed to nutritionally at-risk mothers and children. A final airfreight shipment of more than \$2 million in medicines and medical supplies was delivered in Spring 1993 and immediately distributed to all district hospitals.

About 100 Albanian ministry and hospital directors, department chiefs and controllers were trained in two short courses at the Ministry of Health. To better help them to apply what they had learned in the classroom, pilot demonstration activities were designed and started with the University Hospital Center and the Durres Hospital. USAID health activities have resulted in preliminary planning for the design of health administration and finance courses for the Albanian medical school. Two USAID-assisted demonstration hospitals are developing strategic plans and financial management and pharmaceutical procurement systems as models for the Albanian health sector. In late 1994, the first exchanges of health and clinical personnel between the U.S. and Albanian hospital partners were completed.

About 30 children between the ages of four and 15 came to the Center for Street Children in Tirana daily for tutoring, hot meals, medical care and loving attention. Family counselling was provided on a sustained basis.

Donor Coordination. USAID is closely coordinating efforts with the World Bank, the French Government and the EU Phare program to support the implementation of the Ministry of Health's health sector strategy.

Constraints. Unemployment, although lower than in 1991-92, is nevertheless stabilized at about 20%-25%. The lack of dependable electricity and water supplies, particularly over the winter months, constrains investment potential which, in turn, dampens prospects for an improved standard of living. The seriously deteriorated physical infrastructure of hospitals and clinics has its inevitable negative impact upon general health conditions.

#### **Other Donor Resource Flows.**

According to Group of 24 statistics, the United States has provided about 35% of technical assistance to Albania. Other major bilateral donors are Italy, Japan, Germany, and Switzerland.

**ALBANIA  
FY 1996 PROGRAM SUMMARY**

<b>USAID Strategic Objectives</b>	
<b>Economic Restructuring</b>	<b>\$23,227,000</b>
<b>Building Democracy</b>	<b>\$ 2,615,000</b>
<b>Social Sector Restructuring</b>	<b>\$ 5,158,000</b>
<b>Total</b>	<b>\$31,000,000</b>

USAID Representative: Dianne Blane



## ARMENIA

**FY 1996 Assistance to the NIS Request . . . . . \$ 30,000,000**

Armenia is the smallest and one of the most homogenous of the New Independent States, with strong ties to the West via the active Armenian diaspora. It has favorable long-run prospects for success in the transition from a Soviet state to a democratic nation with a market economy, owing in part to the consensus of its people and its leaders about the direction in which it is moving and considerable donor support. Armenia has been troubled by conflict over the mostly Armenian-populated region of Nagorno-Karabakh in Azerbaijan. At least for the immediate future, the continuing crisis necessitates a strategy centered on helping Armenians meet basic living requirements by providing food and fuel to vulnerable groups, preventing or containing communicable diseases and improving access to energy for electricity, heat and cooking. Despite its hardships, Armenia has made significant efforts toward economic reform. The United States supports these reform efforts, partly through humanitarian assistance, which enable Armenia to proceed with reform, and partly through technical assistance aimed directly at economic and financial sector reform. In the event of a settlement of the Nagorno-Karabakh conflict, the emphasis of U.S. assistance will shift further from humanitarian assistance to increase technical assistance in support of economic reform.

### **The Development Challenge.**

Each of the three Caucasus republics is experiencing ethnically-driven conflicts with resultant refugees and displacement of populations, severe distortion of trade and economic activity, massive drain on public revenues, and curtailment of investment. Energy is a paramount concern for the region and issues of pollution, embargoes, pipeline safety and inefficiency make energy a common denominator in regional development.

For Armenia, the challenge of successful transition to a full and stable democracy and a market economy is increased by circumstances resulting from the Nagorno-Karabakh conflict. Under an embargo by Azerbaijan and a closed border with Turkey, Armenia lacks many of the basic goods needed to sustain economic activity. The Armenian government has been largely preoccupied with the preservation of basic social services and economic activities needed to prevent hunger, suffering and political unrest. The government has taken significant steps to stabilize the dram, reduce budget deficits, and decrease inflation, and there are some indications of small increases in production output. The international donor community remains skeptical that economic reforms will produce sustainable results, however, as long as the Nagorno-Karabakh conflict and the economic blockade continue. Despite these circumstances, since independence in 1991 Armenia has been governed by an elected President and parliament and has not experienced significant backlash against the reform policies of the leadership.

U.S. assistance began in 1992 with emergency supplies and reached a high point in 1994 with humanitarian assistance consisting of food, fuel and medical supplies and technical assistance in critical sectors of the economy. The United States has expended a total of over \$400 million in humanitarian assistance for Armenia since 1992, largely in humanitarian food aid administered through the U.S. Department of Agriculture. Increasingly, USAID assistance is aimed at long-term development goals related to macroeconomic reform, private sector development, energy infrastructure and housing sector reform. In the event of a peaceful settlement of the Nagorno-Karabakh conflict, the emphasis of U.S. assistance would shift dramatically from humanitarian programs to long-term development in the economic and financial sectors.

### **Strategic Objectives (SOs).**

USAID is pursuing the following strategic objectives in Armenia.

## **SOCIAL SECTOR RESTRUCTURING (\$16,000,000).**

**SO 1. Strengthen Armenia's capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$16,000,000).**

Adding to the difficult social and economic adjustments inherent in the post-Communist economic transition are the additional problems resulting from the embargo of Armenia. The country has endured three winters with little fuel or electricity and reduced food supplies. Industrial output and agricultural production are crippled by the fuel shortage and by inaccessibility of other critical inputs. Massive unemployment or underemployment and long periods with inadequate supplies of food, fuel, and medicine have had a cumulative effect on the population; there are discernible signs that general health and welfare are eroding. The United States has demonstrated a strong and consistent response to Armenia's humanitarian crisis. While it will be necessary to continue food and fuel aid for the 1994-1995 winter and perhaps beyond, U.S. assistance is also strengthening Armenia's own capacity to manage crises and increase self-reliance.

**Activities.** (a) Provision of food, fuel and health assistance: The United States' highest assistance priority continues to be to reach the vulnerable population within Armenia with enough winter heating fuel and food to prevent suffering or loss of life. U.S. food aid, primarily wheat, will continue to be provided by the U.S. Department of Agriculture under Food for Progress and Section 416 programs. Additional assistance in 1994 was authorized through a one-time activation of the Food Security Wheat Reserve. FREEDOM Support Act resources have already been made available for an additional special feeding program for vulnerable groups that will continue into the next winter. Support also is being given to increase local food production. USAID funds will support an emergency health and nutrition surveillance system for Armenia with assistance from the Centers for Disease Control and Prevention. Pharmaceutical and medical supplies will also be provided.

(b) Poverty alleviation: The Armenian government is working with the World Bank to develop a Socio-Economic Rehabilitation Fund to mitigate unemployment and production stagnation. USAID and the government have initiated a pilot project, which will serve as a prototype for the larger World Bank project, scheduled to come on line at a later date. The fund will create jobs at the local level by financing labor-intensive local public works projects and by promoting micro-enterprise development. The level of U.S. support will depend on the availability of resources once critical humanitarian needs are met. USAID is piloting a vulnerable group registration program to help identify and select the most needy beneficiaries.

(c) Support for NGOs as a bridge from emergency to developmental assistance: USAID is supporting a number of U.S.-based private voluntary organizations (PVOs) to assist vulnerable groups in developing an NGO network. Through USAID-funded partnerships with U.S. voluntary agencies, Armenian organizations receive training and technical assistance to improve organizational and management skills. Some U.S. groups are also piloting new, sustainable ways to utilize humanitarian assistance, including self-help activities.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the extent to which assistance reaches the most vulnerable, including the elderly, the poor and the unemployed; (2) U.S. effort has mobilized the international donor community to respond to the humanitarian crisis; (3) U.S. effort has brought PVOs to Armenia and is changing local organizations from charities into competent organizers, managers and advocates of assistance to vulnerable groups.

**Progress in 1993-1994.** International relief organizations have helped sustain nearly two million refugees, displaced persons and other vulnerable groups in the Caucasus republics in FY 1994.

For the 1993-94 winter, USAID financed the purchase and delivery of \$15 million in kerosene heating fuel, heaters, and fuel containers for approximately 200,000 households and several hundred schools. Difficulties with transport through Georgia resulted in only about two thirds of the fuel reaching Armenian households during the heating season, but the program did make an important contribution to the well-being of the most vulnerable groups. The program has been expanded for the 1994-95 winter, utilizing remaining stocks from the 1993-94 program and newly procured stock. Approximately 31,000 metric tons of kerosene and 15,000 heaters valued at \$6.5 million are being provided to 210,000 beneficiary families and 1,100 schools, reaching approximately 35% of the population. Other program activities include the provision of food parcels to vulnerable groups, spring and fall seed wheat, over \$2 million in medicines and medical supplies, and the establishment of an epidemiological and nutritional surveillance program. Emergency wheat (100,000 metric tons) was delivered in time to meet a critical gap in Fall 1994.

Donor Coordination. USAID has been a leader in garnering support from the international donor community to assist the Caucasus, including supporting start-up costs for international organizations and private voluntary organizations. United Nations assistance has included the United Nations Development Program (UNDP) technical assistance, United Nations Children's Fund (UNICEF) support for child nutrition, United Nations High Commission for Refugees (UNHCR) support for refugee programs and World Food Program (WFP) assistance with food deliveries and logistical assistance. The International Committee of the Red Cross and the Red Crescent (ICRC) has been a major partner in providing humanitarian assistance, while the International Organization for Migration is helping build the government's capacity to coordinate and oversee assistance. The World Bank has funded an institutional-building and earthquake reconstruction loan.

Constraints. The conflict in Nagorno Karabakh and the accompanying economic embargo by Azerbaijan and Turkey continue to result in a humanitarian crisis in Armenia. Transportation difficulties associated with the blockade and the interruption of transport routes through Georgia due to the civil conflict there have caused delays in reaching vulnerable groups in Armenia with emergency humanitarian assistance. As the Nagorno-Karabakh conflict continues, the international donor community cannot supply humanitarian aid at current high levels indefinitely. Donor fatigue is growing after several years of intense effort. Armenia must work with donors, PVOs and the private sector to expand its food and energy production.

#### **ECONOMIC RESTRUCTURING (\$12,500,000).**

**SO 2. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$12,500,000).**

**(A) Establishing a market environment.**

With the break up of the former Soviet Union, the conflict in Nagorno-Karabakh and the embargo, the Armenian economy suffered from severe contractions in gross domestic product (GDP) and rapidly growing inflation in 1992 and 1993. The Armenian government has been reluctant to undertake rapid privatization and economic reform, as these measures could exacerbate the social and economic stresses already extant in the country as a result of the blockade. While structural reform is proceeding slowly, there have been notable successes in controlling monetary growth, reducing inflation, reducing credit leakages through unproductive state enterprises, and privatizing agricultural land and urban housing. There is broad consensus on the need for market-oriented measures such as price reform, privatization, and development of a legal framework to support private sector growth, but there is less agreement on specific steps and timetables. In addition, there is a serious lack of knowledge of policy instruments and practical skills for implementing needed economic reforms.

Activities. U.S. technical assistance efforts are focused in two critical areas of need: increasing the knowledge of key policy makers (e.g. in the Ministries of Economy and Finance, the Central Bank, the

State Tax Inspectorate) to develop a legislative and policy framework to support a market environment; and of new entrepreneurs, by providing them the business management tools and small amounts of start-up capital with which to conduct profitable businesses. USAID is financing macroeconomic advisors to the Ministry of Economy and sponsoring economic specialists at the newly established Center for Economic Policy, Research, and Analysis. The Center provides a forum for independent, market-oriented discussion and policy analysis intended to inform the policy making process. In the financial sector, USAID technical assistance will focus on support to the Central Bank. Training is being provided to bankers and Ministry of Finance personnel, and U.S. advisors are assisting the Armenian government to reform tax and budgetary systems. USAID is sponsoring technical assistance for individual entrepreneurs and groups of entrepreneurs, including those involved in agriculture and agribusiness. A Private Enterprise Development Institute has been established to promote entrepreneurship and help emerging business organizations. The Eurasia Foundation is implementing a small business credit facility through a commercial bank. USAID also provides technical assistance, commodities and technology to help revitalize physical infrastructure (particularly in the energy sector) essential to sustained economic activity.

USAID has been engaged in a number of initiatives to develop a market-oriented housing sector that can respond to housing needs in a restructured Armenian economy. These include: development of the capacity to organize and operate condominium associations to advance housing privatization and improved maintenance; the establishment of competitive bidding procedures for earthquake reconstruction and other government construction activity; the development of housing privatization and land tax legislation; and the organization of a real estate association to serve the needs of brokers and other professionals in the housing sector.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) an annual 30% increase in private sector housing services contracted by condominium associations over the next 3 years; (2) a 5% annual increase in the number of private sector firms entering into local markets dominated by state-owned enterprise beginning in 1995; and (3) a 5% annual increase in the volume of private commercial lending by the end of 1995.

Progress in 1993-1994. Economic reform is proceeding at a slow but increasing pace. Virtually all agricultural land and some urban housing has been privatized. Fifteen percent of small state enterprises have been privatized, and vouchers for large enterprise privatization are being issued. All producer prices and most consumer prices have been liberalized, and fiscal discipline is being reestablished. USAID-sponsored advisors in economic policy, banking and housing have influenced the direction and pace of economic reform. USAID private sector initiatives have accelerated new small business development and enhanced business skills for managers and entrepreneurs.

In the housing sector, condominium associations were formed at three pilot sites in Yerevan; the associations contracted with a private firm to provide maintenance services. This marks the first time in Armenia that housing services are being provided by private homeowners organized as a condominium association.

Donor Coordination. Armenia had a 1994 balance-of-payments gap of \$153 million, which was closed with loans from the international financial institutions and other external financing. Armenia's balance-of-payments gap in 1995 is approximately \$277 million, most of which will be filled by bilateral and multilateral donor contributions pledged at the Paris Consultative Group meeting in November 1994. The International Monetary Fund (IMF) has worked with the Armenian government to address the overall macroeconomic policy environment as it affects investment, trade and access to foreign exchange. The World Bank has provided loans to foster a better business environment and greater productive capacity in the industrial sector.

USAID is providing technical assistance to the World Bank, the UN High Commissioner for Refugees and the Armenian YMCA in earthquake reconstruction projects. This assistance includes introducing

housing sector reforms and improved construction management techniques within the country. USAID assistance is vital to the World Bank earthquake reconstruction loan and to the multidonor effort to improve banking and economic policy expertise.

Constraints. The continuing blockade by Azerbaijan and closed border with Turkey constrain Armenia's economic development and preclude the development of a viable private business sector. Furthermore, Armenians' limited (though growing) understanding of market economics inhibits progress toward this objective.

#### (B) Energy Management.

An end to the economic embargo by Azerbaijan and Turkey would do much to solve Armenia's immediate energy difficulties. Even beyond the current emergency, however, the energy situation will remain serious. Armenia has limited indigenous hydro and fossil fuel resources and a rapidly deteriorating energy infrastructure. Virtually all fossil fuels and 95% of primary energy must be imported. Energy efficiency improvement is the least costly way of meeting energy needs in the near term. With improved technology and policies, Armenia could provide consumers with adequate energy services in a fully functioning economy with half the country's pre-embargo consumption levels.

Activities. USAID has initiated fast-track assistance to improve coal production by winter 1995 and increase oil production through the purchase of oil drilling supplies. Consequently, the Trade and Development Agency is currently funding a program aimed at bringing U.S. investment into the oil and gas sectors in Armenia. USAID-funded teams are helping improve thermal power plant operations, increase the efficiency of district heating systems, and install energy-saving equipment in Yerevan. A U.S. energy team completed engineering work to facilitate a \$60 million European bank for Reconstruction and Development (EBRD) loan to finish construction of the Hrazdan power plant.

Future U.S. assistance will emphasize improving the efficiency of large energy consumers, such as industrial plants and urban housing. Technical assistance, training and commodities will be provided to support industrial energy audits, improved energy efficiency in industrial buildings, and improved monitoring and management of energy use in industrial processes. Policy assistance related to energy tariffs and private sales will be provided. If private investment financing is available, USAID also may support pre-investment technical assistance and feasibility analysis of new power plants and transmission and distribution systems.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) industry plant energy efficiency improved 5%-10% in five major plants by the end of 1995, and 10-25% in ten plants by the end of 1996.

Progress in 1993-1994. USAID funding has resulted in the provision of critical parts and supplies for power plants and successful demonstrations of energy efficiency technologies in a number of targeted industries, schools, hospitals, and district heating systems. Furthermore, energy reform advisors initiated work on privatization and the development of more commercially-oriented enterprises. Coal production for local heating has been expanded, and several small hydro systems will soon be established.

Donor Coordination. USAID has been instrumental in assisting Armenia to obtain loans from the World Bank and the EBRD for energy sector rehabilitation and improvement. The EBRD has approved a \$60 million loan to complete Unit #5 at the Hrazdan Thermal Power Plant and to construct a grid connection between the plant and Yerevan. The loan agreement gives the Bank the right to suspend, cancel, or accelerate loan repayment if Armenia reopens the Medzamor nuclear plant at a safety level unsatisfactory to the Bank.

Constraints. Armenians have grown accustomed to a highly subsidized power supply. Currently, fuel

supplies are affected by the blockade by Turkey and Azerbaijan.

**BUILDING DEMOCRACY (\$1,500,000).**

**SO 3. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$1,500,000).**

Armenia has had a stable government since it was first elected in 1990, despite the neighboring conflict between Azerbaijan and the ethnic Armenians of Nagorno-Karabakh. However, Armenia faces the same challenges as the other former Soviet states in its transformation from a highly centralized authoritarian regime to a system of governance that encompasses principles of the rule of law, multi-party debate, transparent decision-making, public participation, accountability to those governed, sharing power with sub-national levels of government, and responsible management of public resources. These democratic values can be especially difficult to practice in the face of severe economic hardship that carries risk of political instability.

Activities. USAID assistance includes a nongovernmental organization (NGO) training center to strengthen the management capacity of NGOs. Training, exchange and long-term academic programs for journalists will encourage development of free and independent news media. Limited assistance will be directed at strengthening judicial institutions and criminal justice procedures. A small grants program will help strengthen the rule of law in Armenia by supporting legislative drafting in commercial and criminal law and assisting human rights groups.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) improved judiciary training results in higher competency of judicial staff by December 1996; and (2) eight NGOs involved in influencing the formation of public policy related to humanitarian assistance are organized and operating by the end of 1997.

Progress in 1993 - 1994. U.S.-sponsored training programs, grants and fellowships have provided Armenians with new knowledge and skills in such areas as municipal management; lawmaking; intergovernmental relations, budget and taxation; public affairs and foreign policy and diplomacy. Armenian parliamentarians have participated in study tours on the U.S. legislative process, at the federal and state levels.

Donor Coordination. USAID assistance in this area is coordinated with European Union support for participatory democracy and civil society.

Constraints. Armenia lacks a code of law and a tradition of democratic governance. Political debate is characterized by highly personal attacks and innuendo. These characteristics constrain efforts at building a full and stable democracy.

**Other Donor Resource Flows.**

According to statistics from the Development Assistance Committee of the Organization for Economic Cooperation and Development, the United States provided about 41% of all official development assistance to Armenia in 1993. Other major donors are the Economic Development Fund of the European Union, the United Nations High Commission for Refugees, Italy, and France.

**ARMENIA**  
**FY 1996 PROGRAM SUMMARY**

<b>USAID Strategic Objectives</b>	
<b>Economic Restructuring</b>	<b>\$12,500,000</b>
<b>Building Democracy</b>	<b>\$ 1,500,000</b>
<b>Social Sector Restructuring</b>	<b>\$16,000,000</b>
<b>Total</b>	<b>\$30,000,000</b>

USAID Regional Mission Director: Fred Winch

## AZERBAIJAN

**FY 1996 Assistance to the NIS Request . . . . . \$ 9,000,000**

After the disintegration of the former Soviet Union, Azerbaijan, although rich in oil and natural gas reserves, found itself with an ever deteriorating economic base, including a diminishing gross domestic product (GDP), loss of foreign currency, and severe budgetary constraints. This economic situation has been further exacerbated by military and refugee costs resulting from Azerbaijan's territorial conflict with neighboring Armenia over the Nagorno-Karabakh region.

The overall goal of the U.S. assistance program is to help Azerbaijan achieve an enduring, normal and productive relationship<sup>1</sup> with the United States, its neighbors and the rest of the world, as well as to encourage the long-term goal of political stability and economic prosperity. To this end, the United States supports Azerbaijan's emergence as an independent, democratic and prosperous state.

### **The Development Challenge.**

Each of the three Caucasus republics is experiencing ethnically-driven conflicts. As a result, refugees and displacement of populations, severe distortion of trade and economic activity and massive drain of public revenue and curtailment of investment trouble each of the Caucasus countries. Energy is a paramount concern for the region, and issues of pollution, embargoes, pipeline safety and inefficiency make energy a common denominator in regional development.

Despite the presence of huge oil reserves, Azerbaijan has struggled in its efforts to establish itself as a viable independent country following the collapse of the former Soviet Union. During the Soviet period, Azerbaijan relied heavily on the oil industry to fuel economic growth, but insufficient investments and capital construction have left Azerbaijan with a highly inefficient and deteriorating economic base. Azerbaijan continues to struggle to break free of Russia's strong economic grip, at some cost in short-term stability and economic growth. Nonetheless, the promise of substantial petrodollar profits and consequent investment opportunities remain on the horizon.

Azerbaijan, with its oil and natural gas reserves, has the richest resource base of any of the Caucasus countries. However, despite its rich potential, the Azerbaijan economy has declined almost as much as those of its Caucasus neighbors. GDP fell 35% in 1992 and 13% in 1993. Oil production has been declining for years; 1993 production, at 75 million barrels, was the lowest annual output since the end of World War II.

The non-elected, unstable central government and the Nagorno-Karabakh conflict remain the biggest obstacles to development. Until the conflict is settled, Azerbaijan will not be able to fully develop from a socialist country with a planned economy to a democratic and free-market based society.

Section 907 of the FREEDOM Support Act prohibits assistance to the Government of Azerbaijan until it takes steps to cease the blockade and use of force against Armenia and Nagorno-Karabakh. Therefore, U.S. assistance has focused on utilizing nongovernmental organizations (NGOs) and international organizations to provide relief to those suffering as a result of the conflict, primarily refugees and displaced persons. Working through the international and local NGO community, U.S. Government assistance to Azerbaijan to date has totaled \$39 million in humanitarian assistance and \$3 million in U.S.-sponsored training programs for private citizens. To the extent that Section 907 allows, the United States will continue to provide training and assistance opportunities to private Azeri citizens and organizations in order to build a better understanding of legal, business, economic and educational concepts and democratic principles among the future leaders and participants in Azerbaijan's economy.

### **Strategic Objectives (SOs).**



USAID is pursuing the following strategic objectives in Azerbaijan.

**ECONOMIC RESTRUCTURING (\$250,000).**

**SO 1. To develop a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$250,000).**

While some progress has been made, Azerbaijan's government has chosen to go slow on economic reforms. Azerbaijan's resource base makes it attractive to U.S. investors. Kaiser Aluminum recently concluded an agreement to help modernize the country's aluminum plant, and additional ventures in the oil industry are possible as a result of the recent completion of a multi-billion dollar agreement between Azerbaijan and an international oil consortium, which includes four U.S. oil companies. Some businesses and agricultural lands have been privatized and the government is now actively seeking assistance to speed economic reform.

Activities. Because of Section 907 restrictions, USAID's training and exchange program will be limited to two groups in the private sector: (a) private farmers and agribusiness entrepreneurs, and (b) small-scale entrepreneurs, business people and bankers. In addition, training opportunities will be offered to faculty and administrators of private universities in curriculum development for economics, business administration, health care and English. A Farmer-to Farmer program, implemented by Volunteers in Overseas Cooperative Assistance (VOCA), has been initiated emphasizing high-value crops and processing.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) select private citizens (bankers, farmers and business entrepreneurs) are better equipped to manage the transition to a market economy through technical skills training; (2) an increased number of private enterprises and businesses are licensed.

Progress in 1993-1994. USAID's exchanges and training program was developed in Azerbaijan in 1994 and approved at the end of the year, thereby permitting an intensification of training programs throughout the following year. Participants in USAID-supported training programs learned agricultural marketing. A farmer-to-farmer assistance program was also initiated. USAID-supported private voluntary organizations (PVOs) and nongovernmental organizations (NGOs) emphasized procurement and assistance to local suppliers and industries to produce relief supplies.

Donor Coordination. Dialogues are being undertaken with European Union (EU) and World Bank consultants in private sector development. The World Bank is developing a loan to assist privatization, economic policy making and economic reform.

Constraints. Conflict over Nagorno-Karabakh, Russian influence, slow implementation of reforms and an unstable national government will continue to constrain program success. In addition, the ability to find qualified nongovernmental participants, who can obtain passports, exit documents and visas to travel to the United States remains difficult.

**BUILDING DEMOCRACY (\$250,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes that ensure broad-based participation in political and economic life (\$250,000).**

Given the limitations of Section 907, USAID's activities in the democracy-building area are limited to the provision of training opportunities for private citizens and NGO leaders.

Activities. Through the exchanges and training program, USAID provides short-term training

opportunities to NGO leaders and private citizens involved in democracy building.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) increased number of viable and capable NGOs involved with public interest issues; and (2) increased number of private media outlets operating free of government control.

Progress in 1993-1994. Several training programs were initiated in 1994, one for a group of Azeri environmentalists and another for NGO managers of NGO program and refugee camps. In addition, a joint USAID-U.S. Information Agency training program was developed for mass media journalists in the United States.

Constraints. A poorly organized and non-democratic government, Russian interference, and an uncertain economic climate constrain program success. The ability to find qualified participants who can obtain passports, exit documents and visas to travel to the United States is difficult and limits the success of this objective.

### **HUMANITARIAN ASSISTANCE AND SOCIAL SECTOR RESTRUCTURING (\$8,500,000).**

**SO 3. To strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and to help sustain the neediest sectors of the population during the transition period (\$8,500,000).**

The United Nations estimates that almost 900,000 people in Azerbaijan are in need of humanitarian assistance. This population includes the neediest refugees and displaced persons, disabled and handicapped people in welfare institutions, pensioners living alone, and those whose income is below the minimum state level. USAID assistance will continue to work through international organizations and U.S. PVOs to provide food, medicine and emergency shelter to refugees and displaced persons. The United States will continue to encourage other donors, particularly the European Union, to provide humanitarian assistance to meet the basic needs of the Azeri people.

Activities. USAID-funded activities address the following needs:

A) Emergency aid to refugees and displaced persons: Through grants to U.S. PVOs and international organizations, USAID provides food, medicine, and emergency shelter to refugees and displaced persons. In addition, USAID will continue to support programs that give beneficiaries skills they can use when they are able to return to their homes, such as the International Rescue Committee's proposed project to teach displaced persons how to build low-cost housing from local materials.

B) Emergency medicines: USAID will continue to provide emergency medicines and medical supplies to address the severe lack of medical care for refugees and displaced persons.

C) Food aid for vulnerable populations: USAID will continue to provide food aid to vulnerable populations in Azerbaijan through U.S. PVOs.

D) Nakhichichevan: Through U.S. PVO networks, assistance in food, clothing, and shelter will continue to be provided to Nakhichichevan, the Azerbaijani territory separated from the rest of Azerbaijan by Armenia.

Indicators. Program success is measured by the fact that assistance is appropriately targeted and reaches beneficiaries in a timely manner.

Progress in 1993-1994. Under a regional umbrella grant, Save the Children has coordinated 14 projects with six private voluntary organizations (PVOs) since December 1993. Through this grant, \$1 million was provided for pharmaceutical procurement and \$13.6 million has been provided for

shelter, food, clothing and medical care for about 350,000 people, reaching roughly half the total number of internally displaced people. In addition, through training, management workshops and technical assistance, the program has enhanced the ability of U.S. PVOs to provide humanitarian assistance in Azerbaijan. Also in FY 1994, the United States provided \$1.7 million to the United Nations High Commission on Refugees (UNHCR), \$4.3 million in cash and commodities to the World Food Program and \$1.2 million to the International Committee of the Red Cross (ICRC) for their international appeal for the Caucasus. Under the USAID vulnerable group feeding program, Azerbaijan received 1,050 metric tons of food commodities which reached about 292,000 recipients.

Donor Coordination. The United States will continue to encourage other donors, particularly the European Union, to provide humanitarian assistance to meet the basic needs of the Azeri people. This effort has resulted in close working relationships among all involved with the refugee crisis: ICRC, UNHCR, the European Community Humanitarian Office (ECHO) and PVOs. The World Bank approved a \$45 million loan in June 1994 to begin upgrading Baku's water supply.

Constraints. It is difficult to undertake long-range planning to deal with the refugee and displaced person situation because the tenuous cease-fire in Nagorno-Karavhbakh could be violated at any time and result in renewed fighting. This would again increase the numbers of refugees and displaced persons. In addition, the government is poorly organized, and there is no coordination of assistance at the government level.

**Other Donor Resource Flows.**

There are no statistics available on donor resource flows to Azerbaijan from the Group of 24 or the Development Assistance Committee of the Organization for Economic Cooperation and Development.

**AZERBAIJAN  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Market Economy Transition	\$ 250,000
Building Democracy	\$ 250,000
Humanitarian/Social Sector Restructuring	\$ 8,500,000
Total	\$ 9,000,000

USAID Regional Representative: Fred Winch

## BELARUS

**FY 1996 Assistance to the NIS Request: . . . . . \$ 19,000,000**

As an emerging market democracy, Belarus has the potential to become a force for stability and prosperity in the Western region of the New Independent States (NIS) of the former Soviet Union. The country has been independent since August 1991. A new administration came to power in mid-1994 that carries greater opportunities for progress and reform. Belarus, one of four "nuclear republics" in the NIS, was the first to commit itself to joining the Nuclear Non-Proliferation Treaty and to complete denuclearization. Encouraging responsible nuclear policies and greater commitment to democratic and market reform are the primary U.S. interests in Belarus.

### **The Development Challenge.**

Belarus faces the challenge of re-orienting its economy away from reliance on military production and increasing the productivity and profitability of its agricultural and agribusiness sector, which is still plagued by inefficiencies inherent in state and collective ownership. Like its neighbors, Belarus has had to adjust to the collapse of its internal Soviet market and develop new trading partners. This process has proven difficult for an economy which, in the past, exported some 40% of its industrial output to, and imported 90% of its energy and 70% of its raw materials from, other parts of the former Soviet Union. Belarus suffered most from the effects of Chernobyl and has actively sought U.S. assistance in cleaning up areas devastated by radiation.

The Belarus Parliament (the Supreme Soviet) is still dominated largely by ex-communists who lack commitment to political and economic reform. Prospects for reform improved in 1994 with the adoption of a new constitution, election of a new president in a free and fair election, and the successful negotiation of an International Monetary Fund (IMF) stabilization program. The outcome of parliamentary elections, scheduled for May 1995, will be critical to ensuring progress toward reform.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Belarus.

### **ECONOMIC RESTRUCTURING (\$13,000,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$13,000,000).**

Until recently, Belarus had not shown a firm commitment to market reform. Therefore assistance efforts to date have been modest, attempting to demonstrate the potential of private sector development. Exchanges and training have been emphasized to expose Belarus citizens to Western ideas, values and institutions, to encourage reformist policies, and to build market-oriented capacity within the Government of Belarus (GOB) and the emerging Belarus private sector.

Through its recent negotiations with the International Monetary Fund, the GOB has shown serious commitment to macroeconomic stabilization and economic reform. This commitment is evidenced by GOB measures to reduce the budget deficit as a percentage of gross domestic product (GDP) and liberalize prices, including sharply increasing prices for communal services such as housing and utilities. In January 1995 the Executive Board of the IMF approved Belarus' second purchase of \$104 million under the systemic transformation facility (STF). Negotiations with the IMF over a Standby Agreement are underway. The World Bank plans to hold a consultative group meeting of donors on assistance to Belarus in the near future. USAID is prepared to offer increased assistance to Belarus if the GOB continues to demonstrate commitment to private sector development.

**Activities.** Through the International Finance Corporation (IFC), USAID is supporting small-scale privatization auctions in three Belarusian cities. The West NIS Enterprise Fund is operating in Belarus and plans to open an office there in 1995. Currently, the Fund is reviewing proposals at its New York headquarters for possible equity investments in private Belarusian firms. The Farmer-to-Farmer program assists in the privatization of selected collective farms and promotes private farming and efficient farm management.

To support new commitment to reform, USAID will provide funds for structural reform support to enable the United States to support, on short notice, the efforts of countries embarking on programs of comprehensive economic restructuring. The USAID-funded assistance will likely take the form of commodities, commodity transport, and trade or investment credits that can be counted toward filling balance-of-payments gaps as these new reformers come to terms with the IMF or World Bank on structural adjustment loans. United States contributions to this process are critical in influencing other bilateral donors to participate and can greatly influence the commitment of NIS republics to embark on comprehensive economic reform. Belarus is among the countries most likely to qualify for these funds.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) privatization of 50% of small-scale businesses in those cities receiving USAID assistance by the end of 1995; (2) increased number of private farms registered with the Ministry of Agriculture; and (3) reduction of state-regulated pricing.

**Progress in 1993-1994.** As a result of USAID assistance through the IFC, over 40% of Brest and 30% of Grodno city properties were privatized in 1994. Project Rapeseed is studying how to restore agricultural production to an economic dead zone in Chernobyl-polluted lands, which are in the process of being privatized. The oilseeds will be processed into biolubricants. Seven percent of arable land has been privatized, encompassing 3,200 private farms. The GOB has reached agreement in principle with the international financial institutions on further reforms in price liberalization, budget restraints, and privatization.

**Donor Coordination.** USAID efforts in the market reform area are small in comparison to World Bank and IMF programs and some bilateral donors. Close coordination, therefore, has been critical. The World Bank has initiated a loan program for private small and medium enterprises.

**Constraints.** If progress is not made on negotiating payment of Belarus' external arrears, in particular to Russia, firm commitments of needed donor assistance will be minimal.

## **BUILDING DEMOCRACY (\$6,000,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$6,000,000).**

It is widely observed that democracies do not generally make war on their neighbors, and make for stable allies and export markets. Supporting democracy in Belarus is part of a region-wide strategy to reinforce stability and prosperity in the NIS.

**Activities.** The USAID-supported rule-of-law program consists of judicial training, continuing legal education, and assistance in legal drafting related to commercial and criminal law. USAID election support and monitoring assistance is planned for parliamentary elections in May 1995. Other USAID democracy efforts include training of journalists and development of independent media, and support of indigenous nongovernmental organizations (NGOs).

**Indicators:** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) NGOs participating in USAID-financed programs increase membership or

activity by 50%; (2) at least three NGOs provide critical social services without USAID funding by 1996; and (3) a continuing legal education program is developed and attended by members of the legal profession on a regular basis by December 1997.

Progress in 1993-1994. The Belarus Parliament adopted a new constitution in March 1994, with assistance from USAID-supported legal advisors. Although the viewpoints of the political opposition are frequently reported in the print and electronic media, the government maintains a measure of control over the media through its financial support, and has employed slander laws and open censorship in the past to minimize criticism of its policies. On the other hand, NGOs are proliferating, with some 300 registered as of the end of 1994.

Constraints. Continued commitment to democratic reform by senior GOB officials is critical if USAID democracy activities are to be effective.

Donor Coordination. The U.S. Government is taking a leading role in this sector and is cooperating with the Soros Foundation and the Organization for Security and Cooperation In Europe (OSCE). Discussions have been held with the European Union to encourage its participation in democracy-building programs.

#### **HUMANITARIAN ASSISTANCE AND SOCIAL SECTOR RESTRUCTURING (\$ 0).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period. (\$ 0)**

For overall reform to succeed, the GOB needs support from a broad spectrum of its population, including those most negatively affected by the dismantling of the state apparatus. In response, USAID has provided assistance to Belarus in the health and environmental areas. However, in an effort to provide greater focus and concentration to the overall assistance program in Europe and the NIS, FY 1996 funding for health and environment activities in Belarus is not currently planned.

Activities. USAID has supported a hospital partnership program focused on pediatrics, poison control and hospital administration and management. A USAID-supported environmental program is helping reduce industrial pollution and improve the quality of drinking water through pollution reduction in the Pripjat basin.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) new treatment protocols adapted in pediatric oncology, toxicology and infection control (and 100 people trained in their application); and (2) upgrading of the existing water quality and supply system.

Progress in 1993-1994. USAID provided critically needed vaccines for children and other emergency pharmaceuticals. Belarus upgraded various pediatric hospitals with equipment provided through U.S. assistance. Belarus has taken positive steps by establishing ministries of energy, forestry, water resources, and land reclamation, and by establishing state committees on the consequences of the Chernobyl accident and supervision of safety procedures in industry and nuclear power.

Donor Coordination. USAID and the World Bank are cooperating on assistance for the environmental action plan adopted by the GOB. USAID has played a prominent role in establishing the Interagency Immunization Coordinating Committee (IICC) which is a framework for coordination of donor support in immunization delivery and disease control in the NIS.

Constraints. Given the small size of the Belarus market, it is hard to attract investment to the pharmaceutical industry. Greatly restricted government revenues restrict the flexibility of the GOB to

restructure the social safety net.

**Other Donor Resource Flows.**

Statistics on donor resource flows in Belarus are not available from the Group of 24 or the Development Assistance Committee of the Organization of Economic Cooperation and Development.

**BELARUS  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 13,000,000
Building Democracy	\$ 6,000,000
Social Sector Restructuring	\$ 0
Total	\$ 19,000,000

USAID Regional Mission Director: Gregory Huger

## BOSNIA-HERZEGOVINA

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$80,640,000**

The bulk of U.S. assistance to the former Yugoslavia has gone either to Bosnia-Herzegovina or to support refugees from that country. While U.S. assistance had been restricted to humanitarian assistance since the outbreak of the war in 1991, rehabilitation assistance began in FY 1994. This mixture of humanitarian and rehabilitation assistance contributes to the U.S. foreign policy objectives of strengthening the Bosnian Muslim-Croat Federation and of promoting stability in the Balkans.

### **The Foreign Policy/Assistance Challenge.**

The provision of emergency humanitarian assistance has been and continues to be critical to saving lives in war-torn Bosnia-Herzegovina and to alleviating the suffering of the approximately 2.7 million refugees and displaced persons in that country. In addition to humanitarian assistance, the signing of the Bosnian Muslim-Croat Federation accords in March 1994 has provided the opportunity to begin the process of restoring essential public services in Sarajevo and to initiate rehabilitation activities that promote ethnic reconciliation and support the Bosnian Muslim-Croat Federation. Should peace occur, USAID plans a transition into reconstruction assistance in FY 1996.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Bosnia-Herzegovina.

### **REHABILITATION/RECONSTRUCTION ASSISTANCE (\$78,800,000).**

**SO 1. Support ethnic reconciliation and the nascent Bosnian Muslim-Croat Federation; mitigate the near-term negative impact of the war in Bosnia-Herzegovina; and strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$78,800,000).**

The United States supports the Bosnian Muslim-Croat Federation and ethnic reconciliation to bolster the relative peace that currently allows essential rehabilitation and reconstruction activities to advance. Without this rehabilitation and reconstruction assistance, the country's current and future prospects for some type of stability are greatly diminished.

**Activities.** USAID has designed a three-tiered approach to assistance to the Federation and rehabilitation and reconstruction assistance. Each tier builds on the one before it.

First, in FY 1994, USAID focused on the capital city of Sarajevo and provided \$9.5 million in assistance as follows: \$5.5 million to the International Rescue Committee (IRC) to manage a heating and gas project that will contribute to the restoration of essential public services; \$3 million to Project HOPE to procure, deliver and distribute medicines and medical supplies to hospitals; and \$1 million to the United Nations (UN)-administered Trust Fund for Sarajevo.

Second, in FY 1995 USAID focused on Central Bosnia-Herzegovina, providing \$20.5 million to nongovernment organizations (NGOs) and contractors to manage activities in the following areas: municipal infrastructure, micro-enterprise lending and public administration technical assistance and training. Ultimately, the success of the Federation will depend on the political will of local communities of Croats and Bosnian Muslims to devise the institutional means to begin their own recovery. Therefore, while the program funds specific rehabilitation activities, the primary focus is to facilitate a process of community consultation that a) brings multi-ethnic groups together, b) improves the community's quality of life, while c) reinforcing the credibility and authority of the Federation.



Concomitantly, the program will contribute to the ability of the Federation to address the needs of all ethnic groups. A key element in the process of identifying and implementing activities will be the extensive involvement of Federation officials. Sample activities could include repair and reconstruction and institutional support for small-scale community facilities, schools, housing or communications systems.

Third, building on the restoration activities in Sarajevo and Central Bosnia-Herzegovina and on the multi-ethnic socio-political foundations stimulated by U.S. assistance, and assuming a peace settlement in Bosnia-Herzegovina, \$78,800,000 is being requested. This includes \$60,000,000 for larger-scale activities that support Federation-wide post-war reconstruction efforts planned to begin in 1996. In this expanded program, the United States will continue to encourage the community consultation process described above and support Federation involvement in achieving consensus on rehabilitation and reconstruction priorities and activities. Activities that would be considered for funding include electrical power distribution systems, road and bridge repair to open access to areas cut off from commercial traffic, municipal water systems and sanitation.

Six U.S. NGOs already have been awarded grants to train mental health providers, teachers, volunteers and doctors working with traumatized populations in Bosnia-Herzegovina in partnership with local NGOs. International Action Against Hunger is working in two Bosnia-Herzegovina communities to begin the process of economic development and social reintegration across ethnic lines. Catholic Relief Services is assisting the equivalent of the American Psychological Association to work across ethnic and national boundaries to help trauma survivors. Security permitting, the Center for Attitudinal Healing will expand its Croatian peer group counseling programs to help trauma survivors deal with loss and grief, to Bosnia-Herzegovina. Delphi International is working with women's groups in Bosnia on conflict resolution, women's reproductive health, microenterprises and on establishing communication links with women's organizations across ethnic and national lines. The Harvard Program in Refugee Trauma under the Harvard School of Public Health will establish a mental health referral system, training program, and accreditation process for trauma providers. Harvard is also providing training opportunities for U.S., Bosnian and Croatian professionals to collaborate on developing innovative strategies to heal torture survivors and to promote inter-ethnic reconciliation. Finally, Save the Children Federation is creating over 700 preschool and study centers in Bosnia-Herzegovina (and Croatia) to allow refugee and displaced children to continue their studies.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) By 1997, the majority of municipalities in Central Bosnia-Herzegovina have established mechanisms for making local decisions that incorporate the views and interests of all ethnic groups in the community; (2) By 1997, the majority of municipalities in Central Bosnia-Herzegovina have executed rehabilitation activities benefiting both ethnic groups; (3) Trained counselors and a referral network are available to aid trauma victims throughout Central Bosnia-Herzegovina by 1996; (4) 600 loans are provided to small and micro-enterprises in Central Bosnia-Herzegovina by 1997; and (5) 150,000 residents in Sarajevo presently without heat, receive central heating by the end of 1996.

Progress in 1993-1994. In September 1994, the International Rescue Committee (IRC) received a grant under the Bosnian Emergency Rehabilitation project to repair the natural gas distribution and central heating systems in Sarajevo. In addition, IRC has provided a sub-grant to a group of child welfare specialists working through the Soros Foundation in collaboration with the UN, the International Committee of the Red Cross (ICRC) and others providing emergency interim care, tracing and reunification for unaccompanied children from the former Yugoslavia. Other activities such as Project HOPE and NGO trauma grants were awarded in September and just began in early 1995, therefore it is too early to report progress.

USAID's Office of Foreign Disaster Assistance (OFDA) has provided over \$30 million in relief items to victims of war in the former Yugoslavia, over 70% of which go to beneficiaries in Bosnia-Herzegovina. (According to the September 1994 UN Appeal, 2.3 million people throughout the former Yugoslavia

are in need of relief assistance. Of this 787,800 are displaced persons and refugees.)

In FY 1994, NGOs funded by OFDA for relief programs in Croatia and Bosnia-Herzegovina include: Agence International Contre la Faim (AICF) for heating repairs and food for Sarajevo; Equilibre to operate a fleet of 14 vehicles for three months; International Medical Corps for an emergency feeding program; and IRC for fuel and transportation and for a seed program for Central Bosnia.

In addition, in FY 1994, USAID's Office of Food for Peace provided \$71,701,800 in PL-480 Title II commodities for Bosnia-Herzegovina and grants to the World Food Program (WFP) for food distribution to war-affected populations.

Donor Coordination. In carrying out humanitarian assistance, USAID coordinates with the UN High Commissioner for Refugees (UNHCR), World Health Organization, WFP, the European Union and NGOs. The estimated cost of reconstructing war damage in the former Yugoslavia exceeds \$2 billion. USAID will coordinate with UN agencies, international financial institutions, the European Union and other major donors in the development of reconstruction programs for Bosnia-Herzegovina.

Constraints. The ongoing war in Bosnia-Herzegovina makes it very difficult to plan for the transition from humanitarian to rehabilitation assistance. The situation changes daily. The Bosnian Emergency Rehabilitation project has been designed in a manner that will allow for maximum flexibility to enable the United States to respond to changing conditions. Until there is peace, USAID will continue a mix of humanitarian and rehabilitation activities. The \$60,000,000 for Bosnia reconstruction will not be expended absent a reasonable assurance that major hostilities have ceased.

#### **TRANSITION TO DEMOCRACY (\$490,000).**

##### **SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$490,000).**

The country's transition to democracy has clearly been inhibited by the war. The rehabilitation activities described above are intended to encourage pluralism and democratic practices at the local level. Additional small, targeted democracy building activities also will be developed.

Activities. In 1995, the U.S. Information Agency (USIA) will initiate a range of small activities to bolster nascent democratic institutions in areas such as local government, parliament and the media. Key leaders and potential leaders in each area will be provided training and the opportunity to observe how American government and social institutions work to protect the rights of all groups in a successful multi-racial, multi-ethnic society. In addition, small grants will be provided to indigenous entities, particularly independent free media outlets.

Indicators. The following is a provisional indicator measuring progress toward this strategic objective: (1) Trainees demonstrate that they are utilizing USAID-funded training to promote democracy through their positions in government and the private sector.

Progress in 1993-1994. These projects are just beginning, therefore it is too early to report progress.

Donor Coordination. USAID is coordinating democracy efforts with UN agencies, the European Union and the NGO community.

Constraints. The ongoing war in Bosnia-Herzegovina makes it difficult to provide democracy-related assistance at this time.

#### **ECONOMIC RESTRUCTURING (\$1,350,000).**

**SO 3. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$1,350,000).**

To help revive the war-devastated economy, it is critical that socially-owned businesses and industries are privatized in the most expedient and sound manner possible.

Activities. USAID will provide training to Bosnian Federation officials in the area of privatization. USAID also will fund technical assistance to help the Bosnian Government develop a timeline and priority ranking for privatization of major industries, i.e., railways, iron and steel, chemical and energy infrastructure.

Indicators. The following is a provisional indicator measuring progress toward this strategic objective: (1) By late 1996, privatization technical assistance will have enabled the Bosnian Federation to develop a timeline and priority ranking for the privatization of major industries.

Progress in 1993-1994. As these activities are not yet begun, it is too early to report on progress.

Donor Coordination. When conditions permit regular economic restructuring activities, USAID expects to have full coordination with the donor community, and our involvement on the public administration side is expected to position us well to provide further assistance.

Constraints. The ongoing war in Bosnia-Herzegovina is an obvious constraint to the country's economic welfare. High unemployment, a shortage of financial resources and inflation are some economic constraints that will need to be addressed.

**Other Donor Resource Flows.**

As the lead UN agency providing humanitarian assistance to the former Yugoslavia, UNHCR is responsible for land convoy coordination, supplying airlifts into Sarajevo and airdrops of relief supplies to designated Muslim enclaves. The UN's WFP is the primary food donor throughout the region. The UN Protection Force is responsible for escorting UNHCR convoys and peacekeeping operations in Bosnia-Herzegovina, Macedonia and the UN Protected Areas in Croatia. According to UNHCR's latest appeal, contributions to its program in the former Yugoslavia totalled \$90,717,776 through August 30, 1994, approximately 72% of which went to Bosnia-Herzegovina beneficiaries. Total USG contributions from all sources through FY 1994 totalled \$770,073,101, with roughly the same percentage benefitting Bosnia-Herzegovina.

**BOSNIA-HERZEGOVINA  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Rehabilitation Assistance	\$78,800,000
Building Democracy	\$ 490,000
Economic Restructuring	\$ 1,350,000
Total	\$80,640,000

USAID Representative: Charles Aanenson

## BULGARIA

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$42,030,000**

Bulgaria's initial steps in the transition to democracy and a free market economy were impressive. For the first time in over 50 years, a government was elected through true democratic means. In 1991 the government adopted a democratic constitution guaranteeing rights to individuals. Economic reforms included legalizing most international trade, liberalizing exchange and interest rates and eliminating most domestic price controls. The pace of reforms started to stagnate in December 1992, when the Union of Democratic Forces government collapsed after a vote of no confidence. During the fall of 1994, the government resigned and Parliament failed to agree upon a replacement, making necessary new parliamentary elections, which were held on December 18, 1994. The elections resulted in a new socialist administration which controls 125 out of 240 seats in Parliament.

### **The Development Challenge.**

USAID has been providing assistance to help Bulgaria in its transition to democracy and a free market economy. Experience from the early years indicated that a decentralized approach emphasizing local initiatives generally yields the best results. The central government has not fully carried out the necessary reforms to stimulate private sector growth. However, significant support for privatization and other liberalization measures exists in many local governments and local organizations. USAID assistance emphasis has shifted to strengthening local government and decentralization efforts by building public participation at the local levels through civic, trade union and nongovernmental organizations; promoting small and medium-scale business development; municipal privatization; and an integrated program of training, financial and technical assistance to private enterprises. USAID is also assisting in the improvement of the legal and regulatory environment to encourage private sector growth, as well as the implementation of comprehensive environmental and energy policies.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Bulgaria.

#### **ECONOMIC RESTRUCTURING (\$22,320,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$22,320,000).**

USAID's economic restructuring programs focus on building upon Bulgaria's agricultural capacity, encouraging the growth of private enterprise and promoting sustainable use of the country's natural resources. To foster private enterprise and free market development, USAID programs work toward creating a commercial, legal and regulatory environment to promote privatization and private investment. USAID encourages the efficient use of energy and aims environmental assistance at reforming policies to favor private sector solutions, as well as supporting market-based biodiversity preservation and enhancement.

Activities. To further agricultural privatization, \$10 million was disbursed in 1992, to support Bulgaria's balance of payments and to generate local currency for operating expenses of over 200 land reform offices throughout Bulgaria. USAID's agricultural programs will foster improved production and marketing by working with private agro-processors to create linkages to private producers and with associations to advocate for policy change.

To encourage private sector development, USAID provides technical assistance, training and credit through intermediaries to support small and medium-scale enterprises and privatization. Assistance has been provided to the Council of Ministers and Parliament on a wide variety of commercial laws and

regulations, including advising on privatization laws, business management skills, bankruptcy and collateralized lending.

The Bulgarian-American Enterprise Fund was established to promote the development of free enterprise, entrepreneurship and market-based lending activities, pursuing potential investments in food, agribusiness, electronics and tourism. The Fund also supports Bulgaria's growing small business sector.

USAID programs aim at making the Bulgarian energy sector more cost-effective through privatization activities and training of staff in modern techniques of auditing and equipment usage. Waste minimization demonstrations are being carried out in three Bulgarian industries teaching private sector approaches to industrial environmental management. The USAID program is undertaking training and technical assistance to preserve Bulgaria's biodiversity.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Development and implementation of an efficient, transparent, replicable procedure for municipal privatization in 22 secondary cities (about 25% of the total Bulgarian population) by the end of 1995; (2) four banks, with multiple branches, intermediating \$5 million in small and medium enterprise loans through the Kompass Program in 1995, and an additional \$7.5 million in 1996; (3) number of enterprises with increased profitability, as shown by performing Enterprise Fund loans (300 in 1995 to 400 in 1996); (4) 10% increase in local source revenue in ten target cities per year, with five of the cities achieving 50% self sufficiency by the end of the three-year program; and (5) energy efficiency improved 10-25% by mid 1996 in 10 industrial plants as a result of energy savings measures identified during energy audits performed by private local consultants with technical support provided by USAID.

Progress in 1993-1994. While progress has been slow, and results still do not meet expectations in restructuring and privatization of industry, the USAID-funded, small-scale prototype auction program for municipal privatization being implemented in 10 major cities is proving to be a success. Upon completion of the program in early 1995, the number of privatized properties is expected to reach 276, with total revenues of about \$6.9 million. By providing confidence-building experience, developing public support and stimulating the emergency of sustainable local business consulting firms, the project demonstrates that economic development can be achieved through privatization, and its potential for replication is huge. The program is being expanded to 12 new municipalities.

The Bulgarian-American Enterprise Fund has provided \$5.7 million in loan and equity financing to a variety of industries, including agribusiness and agriculture (\$2,565,000), hotel and tourism (\$1,026,000), manufacturing (\$741,000), and transportation (\$684,000).

The Bulgarian Energy Efficiency Foundation was established to serve as a catalyst for policy change and business networking. Bulgaria's first municipal energy efficiency fund was established with assistance from the U.S. Energy Efficiency Foundation. Delivery of \$600,000 worth of equipment to the Kozloduy nuclear power plant improved the plant's operational safety.

With strong International Executive Service Corps (IESC) assistance, a private Bulgarian company opened the first Kentucky Fried Chicken franchise in Sofia in July 1994. The first McDonald's restaurant opened recently, and IESC's assistance should result in the opening of the first Pizza Hut shortly.

An interpretive center pilot project at Vitosha National Park has been initiated through USAID support. The center is to serve the public through development and production of informational and educational materials and exhibits, and through provision of commercial services on a concessional basis.

Donor Coordination. In collaboration with World Bank grantees, USAID-funded Land O'Lakes began

working with farmers, dairy processing managers, dairy specialists, academicians and politicians to encourage a grassroots approach to addressing dairy policy issues in Bulgaria.

Expertise in the areas of macroeconomic policy, bank restructuring, budget development and analysis, tax policy and administration, and bank supervision and audit has been provided by USAID-funded advisors from the Department of Treasury. These efforts are closely coordinated with bilateral and multilateral agencies efforts including the International Monetary Fund (IMF), World Bank (IBRD), European Bank for Reconstruction and Development Bank (EBRD), Organization for Economic Cooperation and Development (OECD), and the European Union.

Constraints. The Bulgarian government has been slow in passing key reforms needed to promote economic development. Recent reports indicate that Bulgaria has the highest inflation rate and the lowest economic growth rate in the Central and Eastern Europe region. Slow structural reform undermines the effects of macroeconomic policies and erodes public confidence in the possibilities of the economic transition. Recently, the Bulgarian National Statistical Institute reported that fewer than one-half of business executives polled planned any investment outlays in 1995. Prospects for a fourth IMF stand-by agreement are dependent upon lower inflation and positive economic growth. Talks on an agreement will not take place before the spring of 1995, after the new government is in place.

#### **BUILDING DEMOCRACY (\$13,750,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through the development of competitive and fair political processes (\$13,750,000).**

Through September 1994, more than \$23 million in USAID assistance has been directed towards the development of a strong democratic foundation that supports the active participation of citizens and nongovernmental organizations (NGOs) in political and economic life.

Activities. USAID activities to promote democracy include encouraging innovative mayors and municipal associations to play a key role in making government more responsive to citizens, the establishment of a four-year undergraduate institution, and the empowerment of NGOs. Supporting an independent judiciary, developing independent bar associations, and furthering legal education has been a continuing priority in Bulgaria. USAID technical assistance has helped independent judges establish a grass-roots NGO which will develop continuing legal education for the legal community. The USAID program continues to provide specific support to improve the functioning of and participation in elections.

Through the establishment of the American University of Bulgaria, students gain an American-style education, emphasizing participation, initiative, and responsibility. With close to 600 students, the University is helping to train a new generation of leaders to reinforce Bulgaria's democratic and market transition.

Training programs are conducted both in Bulgaria and in the United States. More than 5,000 Bulgarians have participated in market economics, business management, and English-language training courses, seminars, workshops and conferences offered by the University of Delaware throughout the country. The University of Delaware has established strong, successful partnerships with the New Bulgarian University, the Sofia Central Library, and the Institute of Economics, Bulgarian Academy of Science to sustain its programs. The participant training program has sent over 150 candidates for educational programs in the United States in public administration, agriculture, tax administration, statistics, health, labor, housing and environment.

The Bulgaria housing and urban development program has assisted municipal governments to conduct visibly fair and transparent review processes awarding private developers building rights to municipal land. Primarily, these processes demonstrate methods for municipalities to facilitate economic

development without direct ownership or control of assets. Also, these processes are another vehicle for local governments to reach out to local constituents, to increase the public trust in local government, to strengthen the case for responsible municipal government and to accelerate devolution of power from the national to the local level.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Municipal associations actively lobbying the central government on local government issues, by early 1996; (2) participatory process established for projects in each of ten target municipalities promoting citizen involvement in local government (such as public hearings, town meetings, citizens groups, and radio call-in outreach programs), by the end of 1996; (3) small grants provided to grassroots organizations for the purpose of building public participation and self-sustainability in raising funds, so that at the end of the three-year program, participating organizations raise at least 65% of their funds from non-U.S. Government sources; (4) Varna University department offers complete course in market-based environmental assessments and environmental business practices, by the end of 1996; and (5) three new cities instituting an open bid process for disposal of municipal land per year.

**Progress in 1993-1994.** The National Democratic Institute (NDI) and the International Republican Institute (IRI) were involved in the get-out-the-vote campaign for the 1994 parliamentary elections. While NDI focused on polling analysis, IRI centered its program on encouraging younger Bulgarians to vote. USAID funding has helped the Bulgarian Association for Fair Elections and Civil Rights, an indigenous NGO, learn the art of a grassroots organization.

The American University of Bulgaria will graduate its first class in the spring of 1995.

**Donor Coordination.** The Soros Foundation has been supportive of USAID efforts in Bulgaria, including the American University of Bulgaria. USAID will coordinate with the World Bank and other donors undertaking projects with infrastructure components, to ensure that these projects contribute to the strengthening of municipalities and decentralization of power to local officials.

**Constraints.** Bulgaria's worsening economic situation distracts from NGO support. In addition, the splintering of reformist-oriented parties has weakened initial momentum in grassroots movements.

### **3. SOCIAL SECTOR RESTRUCTURING (\$5,960,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period. (\$5,960,000).**

USAID programs involved in social sector restructuring work to improve the sustainability of social services.

**Activities.** In the labor area, USAID has funded employment services and mass layoff response programs for dislocated workers. Future assistance will focus on pension and welfare reform, and improving vocational and transitional training programs. Through technical assistance and partnerships with U.S. hospitals, USAID seeks to improve patient care in Bulgarian hospitals and introduce market-based approaches such as performance-based contracting.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) enforcement of nuclear power plant safety standards demonstrated consistently by the end of 1996; (2) a structured inspection system and inspection procedures in place by the end of 1995. Safety analyses performed at the nuclear power plant by trained Bulgarian inspectors according to internationally accepted standards by end of 1995; (3) in order that unemployment benefits reach the truly needy, extensive reforms to local employment offices spread beyond three pilot

offices at the end of 1994 to include three new offices by the end of 1995, and all nine regional offices by the close of 1996; (4) the model for a community approach to the workforce needs of socially disadvantaged groups is replicated in seven sites by the end of 1996, saving one million leva; (5) emergency aid is provided to 150 to 200 sick and injured children a day in the children's triage unit in Sofia by September 1995.

Progress in 1993-1994. The employment services and dislocated worker program has had nationwide impact through the creation of a uniform regional employment services structure based on an operational manual drafted with U.S. assistance. The dislocated worker and mass layoff program, which involves an early warning and quick response system in a labor-management-government framework, has been well received and is being applied nationwide. A pilot employment and training program based in an ethnic minority region targets groups at risk of going on social welfare (e.g. the long-term unemployed, single mothers, young workers). In its pilot stage, this welfare-to-work project served 180 social welfare recipients in a region facing very high unemployment, placing 110 people in jobs in the project's first five months and resulting in a net financial savings to the state.

A continuing partnership between the International Eye Foundation, USAID, and Sofia's Center for Sight has resulted in a sharp increase in ophthalmic care for children, the aged and the general population. A pilot hospital data collection and cost-accounting project has garnered strong support from both the community and regional governments eager to improve health care through improved allocation of municipal health budgets. With U.S. and Bulgarian government funding, a trauma care unit opened in 1994 and is receiving extensive help from the Children's Hospital of Philadelphia. The facility will improve Bulgaria's pediatric trauma care and serving as a nationwide model.

Cardiovascular care protocols were developed by Bulgarian and U.S. physicians from Michigan State University and Sparrow Hospital. Building upon these protocols, a national system of continuing medical education has been put into operation and continued without reliance upon U.S. assistance.

Donor Coordination. Close coordination with the United Nations Development Program, the European Union, and the World Bank in the labor market field has enabled USAID activities to leverage other donor funds. Extensive consultations with the World Bank preceded initiation of the hospital record keeping effort, which constitutes an essential building block for introduction of market reforms to a sector where costs and benefits are quite unknown.

Constraints. Difficult economic conditions have weakened the ability of the government to provide adequate social support. Because provision of this support is important to the government for political and social reasons, it has tended to maintain the status quo, draining fiscal resources in the process. Such an approach is not sustainable.

#### **Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States provided about 21% of technical assistance to Bulgaria. Other major donors are the World Bank, European Investment Bank of the European Union, Italy, and the United Kingdom.



**BULGARIA  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$22,320,000
Building Democracy	\$13,750,000
Social Sector Restructuring	\$ 5,960,000
Total	\$42,030,000

USAID Representative: John Tennant

## CROATIA

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$13,210,000**

Following the outbreak of war in 1991, in the former Yugoslavia, most U.S. assistance to Croatia has been humanitarian, targeting Bosnian refugees and Croatian displaced persons. USAID programs help alleviate the burden these refugees and displaced persons place on the Croatian economy and support private and public Croatian institutions assisting these people. Our assistance also aims to benefit the Croatian economy and foster the development of a democratic system in Croatia, and in doing so, further the U.S. foreign policy objective of promoting stability in the Balkans.

### **The Development Challenge.**

The provision of emergency humanitarian assistance has been critical to alleviating the suffering of refugees and displaced persons in Croatia, and it will continue to be a significant portion of the U.S. assistance program. However, as hostilities have ceased in Croatia, USAID has begun to assist Croatia transform to a democratic market economy through modest support of democratic initiatives, including nongovernmental organization (NGO) development, and economic restructuring activities in areas such as bank supervision.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Croatia.

#### **SOCIAL SECTOR RESTRUCTURING/HUMANITARIAN ASSISTANCE (\$8,000,000).**

**SO 1. Mitigate the near-term negative impact of the war in Bosnia-Herzegovina and strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$8,000,000).**

Croatia has over 400,000 refugees and displaced persons within its borders -- many of whom are traumatized by the war and who will need to be re-united with family members and ultimately resettled. There is a real need for community development and ethnic-reconciliation activities. In addition to ethnic hostilities and the impact of nearly three years of war, there is not much sympathy for the continuing plight of refugees and displaced persons. In addition, trauma care providers have special needs that need to be addressed in order for them to cope themselves and to continue to work successfully with war victims.

Activities. Through a cooperative agreement with the International Rescue Committee (IRC), USAID provides financial, technical and organizational assistance to local groups working with victims of trauma and reunifying families and displaced children in Croatia. Because the aftermath of the war will have repercussions for years, USAID has concentrated its program on local nongovernmental organizations (NGOs) which will be able to continue to serve people affected by trauma long after USAID funding ceases.

Six U.S. NGOs have been awarded grants to carry out the following community development activities, in partnership with local organizations: social reintegration, household economic security, community legal advocacy and rights, and training activities for mental health providers working with traumatized populations. America's Development Foundation is assisting Croatian lawyers to create four legal aid programs throughout Croatia to help ensure that Serbs and other minorities, refugees and displaced persons are fairly represented. Catholic Relief Services will assist the Croatian equivalent of the American Psychological Association to work across ethnic and national boundaries to help trauma survivors. The Center for Attitudinal Healing is establishing peer group counseling programs to help trauma survivors deal with loss and grief. Delphi International will be working with women's groups

in Croatia on conflict resolution, women's reproductive health, micro-enterprise development, and on establishing communication links with women's organizations across ethnic and national lines. The Harvard program in refugee trauma under the Harvard School of Public Health will establish a mental health referral system, training program and accreditation process for trauma providers. They are also providing training opportunities for U.S. and Croatian professionals to collaborate on developing innovative strategies to heal torture survivors and to promote inter-ethnic reconciliation. Finally, Save the Children Federation is creating over 700 preschool and study centers in Croatia (and Bosnia-Herzegovina) to allow refugee and displaced children to continue their studies.

Under an emergency medical program, USAID has funded Project HOPE to procure, deliver and distribute medicines and medical supplies to hospitals and medical facilities in Croatia. Through a cooperative agreement with the American International Health Alliance (AIHA), USAID also is supporting hospital partnerships which link American medical centers and providers of trauma services with counterpart institutions in Croatia to solve health care delivery problems.

Indicators. The following is a partial list of preliminary indicators measuring progress toward this strategic objective: (1) through the AIHA partnership, professional exchange returnees apply newly acquired knowledge and skills to improve health status, patient satisfaction, clinical outcomes and cost by 1997; (2) by mid-1996, Save the Children Federation pre-schools will provide educational services to over 2,000 refugee and displaced children; (3) by 1997, the Center for Attitudinal Healing's peer counseling program will have the capability to work with all referrals to the center; and (4) by the end of 1996, under the Harvard activity at least 50% of trauma providers will be accredited.

Progress in 1993-1994. With USAID funding, IRC has provided a sub-grant to a group of child welfare specialists working through the Soros Foundation in collaboration with the United Nations (UN), the International Committee of the Red Cross and others providing emergency interim care, tracing and reunification for unaccompanied children from the former Yugoslavia.

Three shipments of emergency medicine and supplies totalling over \$11 million were delivered to hospitals in Croatia over the past 18 months. The AIHA hospital partnership project was just initiated and the grant for the NGO community development program was awarded in September 1994. It is too early to report progress on these activities.

In addition, in FY 1994, USAID's Office of Food for Peace provided \$15,186,600 in grants to the World Food Program (WFP) the American Red Cross and Catholic Relief Service for food distribution to war-affected populations in Croatia.

Donor Coordination. USAID is coordinating its activities with relevant UN agencies, including the World Health Organization and the UN High Commissioner for Refugees (UNHCR), and the NGO community.

Constraints. The ongoing war in Bosnia-Herzegovina and movements of refugees and displaced persons within Croatia make it difficult to plan and carry out these projects.

#### **BUILDING DEMOCRACY (\$1,675,000).**

##### **SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$1,675,000).**

Until a lasting peace is secure, it will be difficult to achieve progress in areas such as inter-ethnic reconciliation, rule of law, NGO development and free media. The society is heavily burdened with its refugee and displaced person population. The civil and criminal court systems function much as they did before independence. There is a constitutional court empowered to consider disputes based on Croatia's lengthy constitution; but the judiciary at all levels has been slow to act, has declined to act, or has been subject to political influence in controversial areas such as disputed broadcasting licenses,

evictions, and accusations of alleged government corruption. Croatia does not have an atmosphere which is friendly to NGOs, and current laws make it difficult for many organizations with energy and good ideas to set up operations, let alone carry out activities. Virtually all electronic media, television and radio, are state-run and controlled.

Activities. As stated above, America's Development Foundation is assisting Croatian lawyers to create four legal aid programs throughout Croatia to help ensure that Serbs and other minorities, refugees and displaced persons are fairly represented. The American Bar Association's Central and East European Law Initiative (ABA/CEELI) aims to reform the bar, the judiciary, and commercial law and legal education systems as well as to implement a sister law school program.

The International Rescue Committee will continue to build local NGO capacity through technical assistance and training by partnerships linking local organizations in Croatia with U.S. organizations.

Various free media activities, such as provision of newsprint and training of journalists, and other democratic institution support activities are in place as well.

Indicators. The following is a partial list of preliminary indicators measuring progress toward this SO: (1) by the end of 1996, at least 50% of Serbs and other minorities in territory controlled by the Croatian government will have access to equitable legal assistance; (2) by the end of 1996, trainees in the American Bar Association's methods and ethics courses will demonstrate their knowledge and skills enabling the reformed Croatian Bar to become a key element in Croatia's new legal infrastructure; and (3) by the first quarter 1996, a new judicial code of ethics and commercial law code will have been drafted.

Progress in 1993-1994. Through ABA/CEELI, judicial leaders travelled to the United States to participate in an international conference on court technology and receive related training. Under a U.S. Information Agency grant program, groups of young political and governmental leaders visited the United States to observe how American government and social institutions work to protect the rights of all groups in a successful multi-racial, multi-ethnic society.

Under the IRC NGO development project, funding has been provided to over 25 Croatian NGOs including women's groups, professional organizations and voluntary organizations serving the psycho-social needs of civilian war victims, especially trauma victims in refugee and displaced populations. IRC also has provided a sub-grant to a group of child welfare specialists working through the Soros Foundation in collaboration with the United Nations, the International Committee of the Red Cross and others providing emergency interim care, tracing and reunification for unaccompanied children from the former Yugoslavia.

Donor Coordination. USAID coordinates with the United Nations, the NGO community and donors to implement this objective.

Constraints. The perception and often the reality that the present Croatian leadership is less than completely open to a truly democratic society makes some projects difficult to implement. For example, some community leaders may not be willing to speak openly about problems in the society for fear of negative consequences. Despite this climate, there are opportunities to strengthen democratic institutions.

#### **ECONOMIC RESTRUCTURING (\$3,535,000).**

**SO 3. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$3,535,000).**

The normal challenges facing an economy in transition are greatly intensified in Croatia by the effects

of the war and the ensuing security problems and uncertainty. Total war damage in Croatia has been estimated at over \$20 billion. The burden of over 400,000 refugees and internally displaced persons also has placed a tremendous strain on the economy. Transportation, energy production, tourism and trade have all suffered. Trade with the former Yugoslavia (except Slovenia and Bosnia-Herzegovina) has been disrupted and export markets to Eastern Europe and the Middle East have been lost.

With the relative peace, an ambitious Government of Croatia (GOC) economic stabilization program instituted in October 1993 aims to lay foundations for long-term growth, focuses on fiscal stabilization, currency reform and accelerated privatization and is dependent on support from the international financial institutions (IFIs). This program has thus far been relatively successful. For example, foreign credits totalling \$128 million from the World Bank were available in June 1994, and International Monetary Fund credits are to follow; a new currency, the kuna, replaced the dinar in May 1994; and the re-establishment of the tourism industry, particularly along the Dalmatian Coast, is expected to greatly assist in servicing Croatia's \$2.8 billion foreign debt. U.S. assistance in support of economic transition is focused primarily on the financial sector.

The privatization of smaller firms has been fairly successful. However, the security situation and the uncertainties it brings has slowed the privatization of larger firms, and only about one third of socially-owned enterprises have been privatized through employee buy-outs.

Related to enterprise privatization is bank restructuring. Remaining socially-owned enterprises are tied to correspondent banks, a legacy of the former Yugoslav system. Loss-making enterprises own a substantial part of the banking system, which forces allocation of credit to the banks which, in turn, forces them into a crisis. As a result, many banks are insolvent and illiquid. Croatian authorities are attempting to reduce the link between enterprises and banks; however the responsible agencies do not have adequate staff to address the situation. Until the staffing situation improves, the authorities rely on restrictions on bank credit to force enterprises to adjust.

Activities. In response to a request from the Croatian Government, in FY 1995 USAID initiated a bank supervision project to provide technical assistance and training for privatization of Croatian banks. Focus areas of the bank project are bank supervision and rehabilitation, the payments system, monetary policy implementation, banking legislation, and establishing a government securities market.

Through the entrepreneurial management and executive development program, USAID will provide training to support the development of needed business skills. In a transition climate such as Croatia's, the participant training program is especially useful as it can provide opportunities for technical training as they are identified.

Indicators. The following is a partial list of preliminary indicators measuring progress toward this strategic objective: (1) By the first quarter 1996, a bank privatization plan will have been established, and 10 banks will have begun privatization; (2) Trainees and technical assistance recipients demonstrate that they are utilizing their training to facilitate bank supervision, management, privatization and entrepreneurial efforts.

Progress in 1993-1994. The principal activity in support of this objective has just been initiated.

Donor Coordination. USAID is coordinating with the IFIs, such as the International Monetary Fund and the World Bank. The U.S. is the only bilateral donor providing non-humanitarian technical assistance to Croatia.

Constraints. The war in the former Yugoslavia has required the U.S. Government to give priority to humanitarian assistance. However, assistance is now being extended to support economic transition in anticipation of the resolution of the conflict in the region.

**Other Donor Resource Flows.**

As the lead UN agency providing humanitarian assistance to the former Yugoslavia, the UNHCR is responsible for land convoy coordination, supplying airlifts into Sarajevo and airdrops of relief supplies. The UN's World Food Program is the primary food donor throughout the region. The UN Protection Force is responsible for escorting UNHCR convoys and peacekeeping operations in Bosnia-Herzegovina, Macedonia and the UN Protected Areas in Croatia. According to UNHCR's latest appeal, contributions to its program in the former Yugoslavia totalled \$90,717,776 through August 30, 1994, approximately 14% of which went to beneficiaries in Croatia. Total U.S. Government contributions from all sources through FY 1994 totalled \$770,073,101, with roughly the same percentage benefitting those in Croatia.

**CROATIA  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 3,535,000
Building Democracy	\$ 1,675,000
Humanitarian/Social Sector	\$ 8,000,000
Total	\$ 13,210,000

USAID Representative: Charles Aanenson

## CYPRUS

**FY 1996 Economic Support Fund Request: . . . . . \$15,000,000**

Cyprus continues to suffer from the strains of past inter-ethnic conflict and current distrust and misunderstanding. The divided island of Greek and Turkish Cypriots could be a flashpoint for regional problems, with potential spillover consequences for the countries of Greece and Turkey. This could affect the stability of the southern tier of Europe, which would further aggravate disputes in the Balkans and the New Independent States of the former Soviet Union.

### **The Development Challenge.**

Both the Greek Cypriot and Turkish Cypriot communities confront varying economic problems; however, this is not the principal reason for USAID funding. In fact, gross domestic product (GDP) per capita on the Greek Cypriot side has risen to nearly \$13,000; on the other hand, the Turkish Cypriot side has stagnated at around \$3,000. USAID assistance can help to address some economic constraints, but the main focus is facilitating a political solution on the island, while tangentially benefitting social and economic areas.

### **Strategic Objective (SOs).**

**SO 1. To take measures aimed at reunification of the island and designed to reduce tensions, and to promote peace and cooperation between the two communities on Cyprus (\$5,000,000).**

Working through the United Nations High Commission on Refugees (UNHCR) and the U.S. Information Agency (USIA), USAID funding promotes activities which require and encourage participation by representatives of both communities. This bi-communal approach is intended to demonstrate the positive, substantive results of cooperation. Further, the linkages established between individuals and groups from a variety of society's sectors will contribute to: (1) the long-shot possibility of pressuring each side's leadership to compromise on an equitable solution, or (2) at least, providing acquaintances and stakeholders in seeing that a solution succeeds.

Activities. The bicomunal development program implemented through UNHCR and the Cyprus Red Cross includes agricultural activities such as forestry and pest control, environmental programs improving air and water quality, health components building infrastructure to support prevention and treatment of illnesses, sewerage treatment and rehabilitation of areas near the green line. The scholarship project implemented through USIA and the Cyprus Fulbright Commission offers U.S. scholarships for undergraduate and graduate degrees, and short-term bicomunal training in conflict resolution and business management.

Indicators. UNHCR and USIA have not established a thorough monitoring and evaluation system. These entities are assessing the situation, and will formalize a basic system in FY 1995.

Progress in 1993-1994. The political situation has not changed markedly. The number of contacts between individuals and groups increased overall as a result of USAID project activities. A variety of external events with direct and indirect impacts on Cyprus worsened the political environment. All activities moved forward over the period; however, impacts have been marginal at best.

Other Donors. No other donors work significantly in undertaking bicomunal development and training activities. The United States is the last donor financing the UNHCR program.

Constraints. Activities requiring bicomunal participation are beholden to the political environment. Movements from side-to-side are rare, even to neutral territory. Implementation of each activity falls prey to the political agendas of either side.

**Other Donor Resource Flows.**

According to statistics from the Development Assistance Committee of the Organization for Economic Cooperation and Development, the United States provided about 42% of all official development assistance to Cyprus. Other major donors are the United Nations High Commission for Refugees, the Economic Development Fund of the Europe Union, France and the United Kingdom.

**CYPRUS  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Promoting Peace	\$ 15,000,000
Total	\$ 15,000,000

Director, Office of European Country Affairs: Peter Orr



## CZECH REPUBLIC

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$7,460,000**

Assistance under the Support for East European Democracy (SEED) Act to the Czech and Slovak Federated Republic began in 1990. The Czech Republic has subsequently enjoyed a successful and relatively stable macroeconomic transition with regard to monetary and trade policy, and to a lesser extent, structural reform. Peaceful elections have taken place and the famous "velvet divorce" was quickly and peacefully negotiated with the Slovak Republic early in 1993. More than four years of continuing economic reforms are producing successful results: macroeconomic stabilization, extensive privatization, low unemployment, and a balanced budget. Democratic institutions are in place, and the governing coalition remains politically popular.

The Government of the Czech Republic (GOCR) retains support because it has produced visible change while selectively maintaining public subsidies. The GOCR has moved slowly on reform in some areas, including energy pricing, rent control, bankruptcy, and restructuring of large industries. For economic growth to be sustained, further reform efforts are needed in areas such as corporate governance, bank regulation, capital markets, energy, housing, social welfare support, and the environment.

USAID has played a key supportive role in the success of the Czech economic transformation. USAID efforts have been effective because of the Czech leadership's vision and commitment to reform policies and its responsiveness to assistance. USAID has provided targeted, demand-driven assistance throughout the transition process. Assistance in privatization, banking reform, municipal finance and development, and strengthening of democratic institutions has played a pivotal role in the overall economic reform process. Other assistance projects, though smaller in resource outlay, have produced impressive results, especially in the environmental and energy sectors, in telecommunications, and in management training.

The role of U.S. private investors throughout the transformation process should not be overlooked. Since 1992, U.S. businesses have committed \$1.2 billion to the Czech economy as compared with Germany's \$1.1 billion and France's \$656 million. This trend should continue due to the recent passage of a rigorous Czech procurement law, which offers U.S. bidders an open and competitive process for supplying goods and services to all levels of government and the fact that major energy and telecommunications tenders are coming up in 1995.

### **The Development Challenge.**

Of the emerging democracies in Central and Eastern Europe (CEE), the Czech Republic has one of the most developed industrial economies. It is viewed by many as a model of successful transformation, and there is general optimism about the medium-term outlook for the Czech economy. The Czech Republic's low unemployment, relatively low rate of inflation, and initial success in Western markets are in part due to the Government's "low wage" policy. Moreover, astute economic management has led to the liberalization of 95% of all price controls, annual inflation of about 10%, budgetary deficits of less than 2% of gross domestic product (GDP), low unemployment, a positive balance-of-payments position, a stable exchange rate and a manageable foreign debt. Yet, taking into account the above, the republic's economic transformation is far from complete. The government still faces serious challenges in transforming the housing sector, privatizing the health care system, solving serious environmental problems, and helping the newly privatized state-owned companies adjust to the rigors of free market competition.

Assuming that economic and institutional reforms continue at their present pace, the U.S. Government believes that the SEED assistance program for the Czech Republic can be phased down and out over the 1995-1997 period. A formal phase-out strategy was approved in 1994, reflecting both current priorities of the Czech Government and strategic needs as perceived by USAID. To this end, the

primary focus of the continuing program will be placed on local and municipal development and democratic institution-building. The USAID advisory team on privatization will focus new efforts on enterprise restructuring. FY 1996 will be the final year of new SEED obligations, with the exception of regional activities (e.g. the regional law and democracy program) and minor funding for USIA managed grants programs. In addition, implementation of the following country-specific activities will extend through FY 1997: Housing Guarantee-funded municipal finance program and related technical assistance, transborder environmental sector activities, participant training, management training, and the Peace Corps program.

#### **Strategic Objectives (SOs).**

USAID is pursuing the following strategic objectives in the Czech Republic.

#### **ECONOMIC RESTRUCTURING (\$3,360,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$3,360,000).**

Since 1990, the Czech economy has shifted from 98% public to over 80% private ownership, and USAID has played a central advisory role in this process through provision of technical services, imparting financial, legal and managerial skills across a broad spectrum of the restructuring process. Completing the major portions of the privatization program and establishing the basic infrastructure needed for the sustainability of key reforms are essential in these remaining years of the SEED program. Continuing activities must take account of a new phase of GOOCR requirements, which relate to regulatory, legal, institutional, and administrative needs.

Activities. The centerpiece of U.S. assistance for privatization continues to be the team of advisors at the Ministry of Privatization, the National Property Fund, and the Ministry of Industry. The team now concentrates on industrial restructuring and assistance with regard to major tenders in the energy and telecommunications sectors. Assistance by USAID-supported volunteer organizations also continues to restructure enterprises and small businesses.

One of the nation's largest commercial banks, Komerční Banka, was threatened with insolvency late in 1992. A USAID-funded long-term advisor from the U.S. Department of Treasury worked with the bank chairman to engineer a bail-out with the Consolidation Bank. According to the chairman, this advisor saved the bank. USAID consultants are now helping the Savings Bank to manage mutual funds and helping the Trade Bank to become a private full-service bank.

Although the commercial banking sector has liquidity, most loans are short-term and long-term financing is unavailable for either private or public borrowers. The new Housing Guaranty Program, backed by a \$100 million Czech Government guaranty, will provide risk assurances to a municipal infrastructure fund, enabling commercial banks to offer long-term loans to municipal governments for housing-related infrastructure development.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) 50% increase in municipal financing (debt) through lending by at least nine commercial banks and bond issuance by end-1995; (2) up to fifty post-privatization companies, representing about 500,000 jobholders, financially restructured by mid-1996; (3) 95% of Czech banking sector privatized by the end of 1996; (4) stock exchange predominant equity market by mid-1996 (representing more than 50% of share-trading by value); and (5) entire gas and electricity distribution system restructured and 20% privatized by the end of 1996.

Progress in 1993-1994. With assistance from the USAID advisory team of investment bankers and accountants, the Czechs have closed more than 120 deals. Foreign investment funds in these

transactions total almost \$2 billion in direct investment. The advisory team has helped to create a foreign investment environment seen as fair and transparent, and U.S. investors have contributed almost 30% of the value of the 120 approved transactions.

When the Prime Minister requested urgent assistance in revising the Czech bankruptcy law, USAID provided an expert U.S. bankruptcy attorney within six days. Legal assistance also is provided to the Ministry of Finance in preparing non-profit legislation. It is expected that the law will be passed by the Parliament in mid-1995.

Management training and economics education are central to the USAID strategy and have drawn on the U.S. Information Agency's (USIA) experience in educational programs. The Czechoslovak Management Center MBA program, a PhD program at Charles University, and the program at the University of Economics at Prague are highly successful and renowned sustainable institutions that grew with USAID funding. USAID has provided training to qualified Czech professionals, of whom 100 have visited the United States since 1991.

A wide variety of U.S. assistance has been offered to Czech financial institutions. Assistance to the Czech Savings Bank shifted in 1993 from the bank's management and operations to focus on the bank's mutual fund, the largest in the country. The Komerční Bank's long-term advisor completed his tasks, having helped the bank deal with international audits, restructure its balance sheet, and negotiate with such international lenders as the European Bank for Reconstruction and Development (EBRD). The advisory team at the Czech Foreign Trade Bank (CSOB) began its work in 1994 to help move the bank toward privatization and will continue this assistance in 1995. Support for training at the Czech Banking Institute helped the institute produce a plan for becoming self-sustaining within a few years.

The Housing Guaranty program, through its associated technical assistance provided to several cities, made significant changes in how these cities will approach commercial banks for long-term financing. Similar advice to other cities and commercial banks is expected to prompt further changes in loan terms and conditions. Technical assistance began in 1994.

In 1994, assistance to the environment sector has shifted increasingly toward helping identify and develop projects for financing. This builds upon previous energy and environment assistance, for example, to municipalities, including environmental risk assessments and energy efficiency studies. The State Environmental Fund will also be receiving help on how best to manage its resources.

The Czech American Enterprise Fund has made 20 investments in the Czech Republic, two of which were joint investments with other donor agencies, the Japanese International Development Organization (JAIDO) and the EBRD. While U.S. advisors helped amend the bankruptcy law, the impact of bankruptcy was reduced by Czech efforts to initiate the financial restructuring of larger firms. Training programs in corporate governance and commercial law were designed and were put into effect in 1994.

Donor Coordination. USAID has the strongest bilateral country program presence in the Czech Republic and attaches particular importance to sharing information with other donors represented in the capital. The major coordination mechanism is the Ministry of Economy's Center for Foreign Assistance, where quarterly briefings and more frequent ad hoc coordination meetings are held on matters such as proposals for World Bank, United Nations Development Program, and EBRD financing for environmental infrastructure. USAID also participates in Group of 24 policy coordination meetings.

Constraints. The Czech Government and Parliament face a large policy agenda and bear ultimate responsibility for the restructuring process. The USAID role is one of support for the Czech program rather than one of leadership. For example, two years ago the USAID-perceived need for telecommunications regulation investment evoked little interest. More recently, however, preparation

of a tariff policy for telecommunications has become a Czech priority because of its own realization that this was crucial to its privatization program. Until the government became committed to telecommunications privatization, effective assistance in regulation and tariff policies was not possible.

The government's conservative economic policies have limited the role of international financial institutions such as the World Bank, which encourage certain kinds of institutional and structural reform under their loan terms. Only late in 1994 did an energy law pass, giving a framework on which to base investment decisions. The regulatory framework will be hotly debated throughout this year. In early 1994, the banking system experienced turbulence, as three banks faced major liquidity crises, coupled with scandal. The Czechs moved rapidly to address this problem, setting higher reserve requirements, increasing bank supervisory capacity, and revising bank regulations. Problems in the sector are expected to persist, however, as credit analysis capability remains weak and problem loan portfolios are substantial. With rapid expansion of the banking sector (the number of employees has increased from 8,000 to 50,000 in just four years), continuing instability is expected for the next two to three years.

The fledgling Czech capital markets are suffering from poor regulation, illiquidity, and inadequate availability of information. To date, no major scandals have surfaced, but the potential for abuse exists. The Czechs are debating the appropriate regulatory structure for the market, and implementing ad hoc reforms to improve operations and enable faster settlement of transactions.

#### **BUILDING DEMOCRACY (\$1,100,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$1,100,000).**

Activities. As privatization enters its final phase, the Czech Government has asked the U.S. Government to help in broadening public participation at the district and municipal levels, as well as continuing work at the national level to clarify policies, delineate responsibilities, and facilitate local initiatives. USAID programs help extend the reform process while cushioning the impact of restructuring in ways that encourage local initiative and responsible self-governance.

The U.S. tradition of volunteerism, as typified by the Peace Corps, International Executive Service Corps, Citizens Democracy Corps, Volunteers in Overseas Cooperative Assistance, MBA Enterprise Corps, and Financial Services Volunteer Corps, have contributed greatly through programs funded by SEED. In addition, the Joint Distribution Committee has trained about 1,000 people in methods of caring for the elderly. Through these programs over two hundred Americans have served as volunteers at all levels of the public and private sectors.

U.S. assistance is directed to local government, with a view to strengthening administrative and financial capabilities and promoting local authorities' responsiveness to the public will. Emphasis will shift from democratic institution-building to encourage public participation and improving responsiveness to public concerns. Decentralization of governmental authority is an official Czech policy, and implementation of the new tax law provides new resources for local government. Strengthening local government capacity will be a high USAID priority during the phase-out period.

There is a high degree of complementarity between technical assistance provided under the Housing Guaranty loan program and local government assistance. The Housing Guaranty program and its technical assistance component will be extended to an additional group of cities. This program provides technical assistance to help elected officials and civil servants to understand the role of municipal finance, the importance of capital investment and fiscal responsibility, and the importance of responsive governance. American experts explain municipal finance, budgeting, and how priorities flow up from local citizen rather than down from the central government.

A new initiative, under the democracy program announced by the U.S. President in 1994, will focus on strengthening Czech nongovernmental organizations (NGOs). Through the program, grants have been awarded to the Foundation for a Civil Society and the National Forum Foundation, funding provided to the U.S. Information Agency (USIA), and a contract awarded to the International Center for Non-Profit Law. These funds will provide technical assistance, training, and small grants to Czech grass-roots organizations.

Successful educational and media reform will support the political and economic policy reforms currently under way, and provide skills to future leaders in a democratic, market-oriented society. U.S. assistance in this domain is a long-term endeavor. It is likely to be continued as a regular core-funded program of USIA. Assistance has been directed to training institutes for administrators and teacher trainers, with emphasis on civic education, school administration, finances, and curriculum and teaching materials development. New activities under the democracy program will assist efforts to encourage freedom of expression among Czech students.

Under the rule of law project, USAID will provide postgraduate training for Czech lawyers and assist Czech parliamentarians in revising the Czech criminal procedure code along American judicial lines. At the request of Czech authorities, a USAID-funded American Bar Association's law initiative is involved in development of ethical codes and standards of professional behavior to strengthen the independence of the legal profession.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Legal framework for Czech non-profit organizations in place by mid-1996; (2) thirty Czech community-based NGOs registered and fully functioning as legal, fund-raising, non-profit organizations by end-1996; (3) five municipalities implementing strategic economic development plans by end-1996; (4) five municipalities instituting formal procedures for broad citizen participation in decision-making and oversight by end-1995; and (5) adoption by its members of Czech Bar Association ethics code, incorporating standards of conduct and professionalism for the legal profession, by mid-1996.

Progress in 1993-1994. In May 1994 the Housing Guaranty loan program implementation letter was signed. The program has been very visible to the public and strongly endorsed by Czech commercial banks. Czech municipalities have voiced strong support and are actively preparing project proposals for financing through the Housing Guaranty resources. In addition to the Housing Guaranty Loan, the SEED program will continue to finance technical assistance to commercial banks in project evaluation and underwriting, as well as to local governments in capital development planning and project development methods. Some additional assistance will be given at the national level to the Czech development bank responsible for managing the infrastructure financing. It is recognized that the demand for loan financing under this guaranty may extend beyond the FY 1997 close-out date; appropriate management would be assured by one of the other USAID field offices in Europe.

One of the lessons learned from the U.S. assistance program in the Czech Republic is the importance of deploying resources outside the capital city. Initially USAID programs were directed to serving the Czech Government and institutions close to Prague. Much of USAID assistance is now dispersed to districts and municipalities away from the capital area. The recently established municipal infrastructure finance fund, public administration, and democracy network are targeting assistance to communities throughout the country.

With a SEED grant, the U.S. Library of Congress helped to redesign and equip the entire electronic research and archive system of the parliament -- a task completed successfully in 1994.

Donor Coordination. The newly-established U.S. Embassy democracy commission has been active, not only in coordinating U.S. Government activities but also in encouraging coordination among other donor programs, including those of the European Union and charitable institutions such as the

Rockefeller Brothers, Mott, Mellon, and PEW Charitable Trust Foundations.

**Constraints.** Forty years of Communism have not engendered much enthusiasm on the part of individuals or private businesses to assume financial responsibility for not-for-profit public purpose organizations. There is some misunderstanding of the public-interest role of such organizations, and a tendency to confuse them with private groups serving a closed membership.

#### **SOCIAL SECTOR RESTRUCTURING (\$3,000,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest groups of the population during the transition period (\$3,000,000).**

**Activities.** In health sector restructuring, technical assistance and training in health insurance and actuarial analysis have been provided to the General Health Insurance Company and several branch health insurance companies to master new skills required for developing health policy, financing and analysis. USAID has provided \$2.1 million under the regional partnership in health care project, to help provide assistance to Czech health institutions in efforts to improve prevention, diagnosis, and treatment of heart disease. Under the same project, Czech medical societies have been assisted to formulate and adopt standards of excellence for their medical specialties, so that membership can be restricted to those health care providers meeting those standards. With USAID assistance, the Ministry of Health is establishing a quality care assurance Department, which will regulate and monitor the health care standards set by these societies.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Reduction by at least 15% of severe pollution health risks, as identified by baseline U.S.-assisted risk assessments, in Northern Moravia and Northern Bohemia regions by mid-1996; (2) adoption and implementation of a Quality Assurance (QA) program by the Ministry of Health and the Czech medical chamber by end-1995; (3) 20% decrease in cardiovascular disease mortality rate by mid-1996; (4) the U.S.-assisted model for community living arrangements for mentally handicapped adults replicated by Czech NGOs on a self-sustainable basis, in at least ten cases by end-1995; and (5) ten environmental technology or mediation projects financed for implementation by end-1996.

**Progress in 1993-1994.** Technical assistance and training in health insurance and actuarial analysis were provided to the General Health Insurance Company and to several branch health insurance companies, enabling them to master new skills for developing health policy, financing, and analysis.

A mobile seminar in the United States was organized in 1994 to inform Czech policy makers, including the Minister of Health, about the U.S. system of managed health care. Assistance continued, pursuant to a request from the Minister of Finance, to create a legal framework for introducing not-for-profit institutions into the health sector.

**Donor Coordination.** USAID briefs the Ministry of Economy's Center for Foreign Assistance regularly. However, there is little activity by other donors in the social sector.

**Constraints.** U.S. assistance to the Czech Republic has been based on the overall priorities of government leadership, and individual activities have been demand-driven since 1991. The Czech government consistently asked donors to give priority to assisting the economic transformation, particularly privatization. Social safety net programs have generally not been a priority for the Czech Government, except in the restructuring of health services. U.S. assistance provided to the Ministry of Health has been in a number of different technical subjects, including exposure to the U.S. system of health insurance reimbursement based on diagnostic groups, quality assurance and actuarial assistance. To support transformation in the health sector as requested by the Minister of Finance,

the United States has provided advice on developing a not-for-profit sector, without advocating one particular approach.

As health care institutions face decentralization and privatization, it is likely that their personnel will find it difficult to meet the strategic and management challenges of this transition. Furthermore, they will need to reconcile diminishing central budgetary support alternative financing mechanisms. Health care is considered a right (and not a privilege) in the Czech Republic, but co-payment arrangements will need to pass an important share of costs to the patients. This may reduce accessibility of health care services and possibly give rise to social and political problems.

A further complication will be the need for health care costs -- as assigned to patients -- to be limited to capacity to pay, taking into account the government's continued adherence to wage and price controls.

**Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States provided about 6% of technical assistance to the Czech Republic. Other major donors are the European Investment Bank of the European Union, Austria, the Netherlands, France, and Germany.

**CZECH REPUBLIC  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 3,360,000
Building Democracy	\$ 1,100,000
Social Sector Restructuring	\$ 3,000,000
Total	\$ 7,460,000

USAID Representative: James Bednar

## GEORGIA

**FY 1996 Assistance to the NIS Request . . . . . \$21,000,000**

The emergence of a stable, democratic, prosperous and independent Georgia is in the long-term interest of the United States, in part because the country is a transportation corridor for the entire Caucasus region. Through its ports and rail system, resources are transported for the three Caucasus nations: Armenia, Georgia and Azerbaijan. These transportation routes are used for humanitarian assistance for the three countries. Georgia's pipelines carry critical energy resources from Central Asia and Russia for itself and for Armenia. The cut-off of transportation through Chechnya has heightened the importance of the Georgian corridor. The United States also has fundamental humanitarian concerns in Georgia. Although Georgia's own internal civil conflicts have subsided, large populations remain displaced throughout the country, and the economic situation remains desperate.

### **The Development Challenge.**

Each of the three Caucasus Republics is experiencing ethnically driven conflicts. As a result, these three countries are experiencing an influx of refugees and displaced persons, severe distortion of trade and economic activity, massive drain of public revenue, and curtailment of investment. Energy is a paramount concern for the region, and problems of pollution, embargoes, pipeline safety and inefficiency hamper regional development.

Over the past several years, Georgia's economy has been severely harmed by internal conflicts, the Abkhazian revolt and South Ossetian separatist movement, and the disruption of trading patterns caused by the break-up of the former Soviet Union. There are sharply declining output, very high and still accelerating inflation, a deteriorating fiscal situation, mounting external debt, and sharply dropping living standards. Cumulative economic decline is estimated to be about 70% for the period 1990-93, and per capita gross national product (GNP) fell to \$563 in 1993, now one of the lowest levels among countries of the New Independent States (NIS). In 1994, output continued to decline, average monthly rates of inflation were around 60%, tax revenues were below 2%, official unemployment exceeded 8% of the work force, and households had to rely on sources of income other than wages to cover their basic expenditures. In addition, the country has been plagued by widespread crime and corruption at all levels of the economic system.

Since the beginning of 1994, the country has achieved some progress toward political stability and is now directing its attention to rebuilding the economy and undertaking the necessary reforms that will bring about macroeconomic stability and the resumption of growth. The Government of Georgia has already made several hard choices, which include commitment to massive price liberalization of bread, gas and electricity, and implementation of tight fiscal policies, which have sharply curtailed currency generation, credit to the banking sector and government expenditures. Despite an inefficient national government and widespread crime and corruption, municipal governments are functioning and making some economic progress. The development challenge for the United States is to help meet the continuing, critical humanitarian needs of the population while continuing to help Georgia lay the foundation for long-term sustainable growth and economic stability. USAID will need to carefully target those areas where significant success can be achieved in the near future.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Georgia.

### **HUMANITARIAN ASSISTANCE AND SOCIAL SECTOR RESTRUCTURING (\$12,000,000).**

**SO 1. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and to help sustain the neediest sectors of the population during the transition**



period (\$12,000,000).

The highest priority of the U.S. assistance program will continue to be the provision of humanitarian aid and assistance to the Georgian Government in dealing with relief efforts. As the country's economic situation stabilizes, USAID assistance will shift increasingly towards longer-term development objectives such as microenterprise, public works and management improvements. In the immediate future, given projected continuing shortages of essential foodstuffs, medicines and fuel supplies, significant economic progress will be difficult, and USAID's humanitarian contributions will continue. USAID also has contributed to international donor appeals for assistance to Georgia.

Activities. USAID has funded a number of NGO activities directed at food distribution, income generation, employment, food security, provision of shelter materials and clothing, health care, medicine distribution, resettlement of displaced persons, and environmental improvement. Under the Save the Children Federation umbrella grant for humanitarian assistance to the Caucasus, USAID funds nongovernmental and private voluntary organizations (PVOs) active in humanitarian relief and micro-projects. USAID supports the World Food Program and its logistical operations unit. The emergency medicines program will continue. As needed, USAID will provide critical energy resources such as heating fuel, and will distribute emergency medicines, clothing, weatherization materials, and food. The Atlanta-Tbilisi medical partnership has been introducing market-oriented solutions to hospital management and health care delivery and finance, and training health policy makers and administrators. USAID will continue to support disease surveillance and monitoring through the Centers for Disease Control and Prevention. In response to a request from the Georgian government, USAID is financing a pilot social rehabilitation investment fund which will finance small-scale community infrastructure development. USAID has also provided energy assistance; last winter electricity and heat were limited to no more than four hours per day in Tbilisi, and no electricity was available in many rural areas.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) humanitarian assistance is appropriately targeted and reaches the beneficiary in a timely manner; (2) over the longer-term, beneficiary employment and enterprise start-ups increase; (3) improved water supply and sanitation services for 500,000 people are established; and (4) health reform legislation passed in 1996.

Progress in 1993-1994. USAID continued the vulnerable group feeding program, which provides agricultural commodities to infants, pregnant women, pensioners and families displaced by ethnic strife. Approximately 15 private voluntary organizations and nongovernmental organizations received financial support for relief and humanitarian assistance efforts in Georgia. Some 35,000 patients received critical medicines. Water supply and sanitation projects underway will benefit approximately 500,000 people, 25% of whom are internally displaced persons. This population now receives a safe water supply daily rather than only once a week. Over 37,000 internally displaced persons situated in remote regions received food assistance. Through USAID, 100,000 metric tons of wheat were distributed on an emergency basis to avert critical bread shortages, and 41,000 metric tons of heating fuel were provided to the Tbilisi power plant.

Donor Coordination. The United States has been a catalyst for obtaining support from the donor community to assist Georgia. Through the combined effort of the United States, the European Union and other international organizations such as the International Organization for Migration (IOM), the United Nations Department of Humanitarian Affairs (UNDHA), the International Committee of the Red Cross (ICRC), the United Nations High Commission on Refugees (UNHCR), and the World Food Program (WFP), humanitarian assistance has continuously flowed to Georgia. One important result of international organization efforts has been the support and maintenance of the Georgia railroad system, a critical transportation link, through the Caucasus Logistical Assistance Unit operated by the World Food Program. USAID assistance is paving the way for World Bank loans for health reform. Close coordination between the Atlanta medical partnership and World Bank activities support health reform implementation. USAID has played a predominant role in establishing the Interagency Immunization

Coordinating Committee (IICC) which is the framework for coordination of donor support in immunization delivery and disease control activities in the NIS region. USAID is discussing with the multilateral development banks the possibility of establishing a more substantial and longer-term social rehabilitation investment fund to follow up on the USAID-financed pilot fund.

Constraints. Due to the conflict in Chechnya and other internal conflicts resulting in additional refugees arriving in Georgia, it is difficult to undertake long-range planning in dealing with the refugee and displaced person situation. Also, the cease-fire in Abkhazia is tenuous at best.

#### **ECONOMIC RESTRUCTURING (\$7,500,000).**

**SO 2. Foster the development of a competitive market-oriented economy in which most resources are privately owned and managed (\$7,500,000).**

The transition to a market economy is an important component of U.S. assistance to Georgia. USAID technical assistance provides sound macroeconomic advice, paves the way for small-scale business development and helps meet the need for critical improvements in the energy sector. In addition, various USAID training programs enhance skills development so individuals can function in a market economy.

Activities. USAID is funding long-term advisors to work with the Deputy Prime Minister, the Ministers of Finance and Economy, and with individuals in a new economic policy center in key reform areas such as currency stabilization, foreign exchange operations, and fiscal management. Broadened USAID technical assistance for economic restructuring activities includes a long-term business development advisor to provide training and consultative services. USAID will continue to work with the Georgian Ministry of Energy to improve the availability and distribution of energy resources throughout the country. In response to a Georgian government request, USAID will assist in preparing for a \$25 million loan to the energy sector, including components to rehabilitate existing facilities and reform the policy and regulatory environment. To increase heat and electricity available to the Georgian public during the 1994-95 winter, USAID is funding the purchase of \$2.7 million of urgently needed spare parts and materials for the repair and maintenance of district heating, thermal power, and the Batumi port and refinery. Technical assistance and advisory services in the agriculture and agribusiness sector are being supported through Tri-Valley Growers and the Farmer-to-farmer program.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) new tax code in place by December 1996; (2) budget law in effect by December 1995; (3) central and commercial banking laws established by December 1995; (4) power plant generation efficiency improved 10% at Tbilisi Thermal Power Plant by late 1995; and (5) productivity, sales and employment increased at 15 firms by December 1995.

Progress in 1993-1994. A senior USAID macroeconomic advisor to the Deputy Prime Minister for Economic Affairs helped prepare the Georgian government for their participation in International Monetary Fund (IMF) and World Bank initiatives. USAID is providing urgently needed commodities for hydro and thermal power plants and has worked with the European Bank for Reconstruction and Development (EBRD) to prepare a large energy loan. USAID-funded commodities delivered to the Tbilisi thermal power plant resulted in the generation of an additional 70 mega watts of power. USAID-funded training in business management is providing the skills necessary to start new businesses, especially in the service sector.

Donor Coordination. The International Monetary Fund (IMF), World Bank, and EBRD have approved and initiated several key loans in the economic sector, including an IMF Systemic Transformation Facility. USAID, with a macro-economic advisor on the ground and training programs underway, played a key role in facilitating the development and negotiation of these loans. The World Bank has just begun an institution building project for Georgia which will foster financial sector reforms, design

a strategy for restructuring Georgia's economic management agencies, and accelerate the implementation of privatization and enterprise reform. USAID funding in the energy sector is intended to attract and facilitate multilateral bank loans and other donor contributions.

Constraints. National instability is a major constraint to implementing reforms that would facilitate economic growth and the development of a viable, private sector.

#### **BUILDING DEMOCRACY (\$1,500,000).**

**SO 3. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$1,500,000).**

Georgia is one of the few countries that still operate under the old system of a chairman, as the head of state, and a parliament equivalent to a supreme council. To the people of Georgia, the principles of democracy and the transparent operation of its institutions are foreign and often incomprehensible. USAID has just begun to assist the Government of Georgia with judicial and legal reform, democratic governance, and the development of an independent media.

Activities. USAID will support the activities of the National Democratic Institute, Congressional Human Rights Foundation, Eurasia Foundation and the Institute for Soviet-American Relations in Tbilisi. Through the exchanges and training program, training opportunities will be offered in nongovernmental organization (NGO) management, independent media development, parliamentary process and rule of law. USAID is planning to provide assistance to improve the legal system and codification of laws. Technical assistance also will be provided to independent radio and other media.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) civic groups and political party workers participate in 1995 election; and (2) at least one independent, financially viable television station is established and broadcasting by the end of 1995.

Progress in 1993-1994. The National Democratic Institute established its office in Tbilisi and conducted the first of a series of workshops on political party development and strengthening local and regional democratic institutions and processes. The Congressional Human Rights Foundation initiated a plan to establish an internet linkage in Georgia. The Eurasia Foundation just recently opened an office and has begun in-country operations. As part of the NGO strengthening program, the Institute for Soviet-American Relations (ISAR) has begun a small grants program to help indigenous NGOs raise awareness of local environmental concerns and improve their management practices. By the end of 1994, 21 grants had been awarded to NGOs for 25 environmental projects, many outside of Tbilisi. ISAR also has created a regional environmental library, which now contains 350 documents. Usage of the library has reached an average of 25 persons per day. Through the exchanges and training program, training has been provided to media representatives, parliamentarians, and NGO leaders.

Donor Coordination. USAID is coordinating with the European Union (EU) and the German Government, both of which have provided assistance to strengthen the Ministry of Justice.

Constraints. An unstable central government and separatist movements are the major constraints to democratic development.

#### **Other Donor Resource Flows.**

Statistics on donor resource flows in Georgia are not available from the Group of 24 or the Development Assistance Committee of the Organization for Economic Cooperation and Development.

**GEORGIA  
FY 1996 PROGRAM SUMMARY**

<b>USAID Strategic Objectives</b>	
<b>Market Economy Transition</b>	<b>\$ 7,500,000</b>
<b>Building Democracy</b>	<b>\$ 1,500,000</b>
<b>Humanitarian/Social Sector Restructuring</b>	<b>\$ 12,000,000</b>
<b>Total</b>	<b>\$ 21,000,000</b>

USAID Regional Representative: Fred Winch

## HUNGARY

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$27,400,000**

Since 1990, Hungary has made great strides in transforming itself into a democratic, open market society. Hungary has excellent relations with the United States, and the Hungarian Government has been an enthusiastic participant in international fora, including the Organization for Security and Cooperation in Europe. A major focus of Hungarian foreign policy has been on integration into North Atlantic economic and security institutions. In 1994, against the backdrop of growing economic hardship, a high voter turn-out returned the Socialist Party to power; however, foreign and domestic policies are not expected to change dramatically as a result of these elections.

### **The Development Challenge.**

Despite strong government commitment to economic restructuring, major privatization accomplishments, and unprecedented levels of foreign private investment (over \$7 billion, of which U.S. investors account for about 40%), the transition from a centrally planned to a free-market economy is proving more difficult than originally anticipated. Unemployment and inflation persist at high levels, entailing costly social welfare programs, creating alarming levels of indebtedness, and eroding the value of domestic earnings and savings. World Bank and other locally based donor agency observers confirm that the gap between rich and poor is widening, with an increasing number of Hungarians experiencing declining living standards. It is estimated that one-quarter of the population is currently living in poverty (up from 8% in 1989), including large numbers of children, dependent mothers, and pensioners.

There are encouraging signs of revitalized industrial and agricultural production, but Hungarian producers are finding it difficult to compete against more experienced and aggressive exporters in the global marketplace. Gross domestic product (GDP) growth was flat in 1993 and only one to two percent in 1994. Hungary's adverse balance of trade with its most important European Union trading partners continues to worsen. Hundreds of factories, farm cooperatives, and businesses have been forced into bankruptcy, resulting in high levels of unemployment. This, in turn, imposes a major burden on the social welfare budget (nearly 60% of the national budget), at a time when Hungary can least afford it. The first post-communist government inherited a large foreign debt burden, and Hungary remains one of Europe's most heavily indebted countries on a per capita basis. Much of this borrowing is being used to finance debt servicing and welfare outlays, rather than invested in new plants or otherwise used to enhance the country's productive capacity and international competitiveness. Most of Hungary's domestic savings are being diverted to government borrowing, leaving small entrepreneurs with only limited access to desperately needed capital.

### **Strategic Objectives (SOs).**

The goal of U.S. policy is to help Hungary complete its difficult economic and political transformation by promoting establishment of a free market economy, private ownership, democratic institutions, and Hungary's integration into Western economic and security institutions.

### **ECONOMIC RESTRUCTURING (\$15,450,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed (\$15,450,000).**

Hungary has taken fundamental steps in establishing a private sector-led market economy. A sound legal and regulatory framework is broadly in place, which establishes international corporate accounting standards and laws on bankruptcy and liquidations. Important institutional weaknesses exist, however, in the governmental organizations responsible for administering this body of law and regulation.

Foreign capital is encouraged by a liberal foreign investment regime and currently exceeds \$7 billion. The economic transition process has witnessed a strong growth in new ventures, and there are over 17,000 joint ventures in operation. Small enterprises are playing an increasingly important role and now account for nearly one-third of Hungary's GDP. The Government has nearly completed liberalization of product, service, and capital markets, as well as deregulation of economic activities. Most consumer and producer price controls have been removed, with the exception of a few basic commodities and utilities. Hungary has reduced tariffs and import restrictions significantly, and has shifted the bulk of its trade to European Union members. Of the 2,000 state-owned enterprises existing in 1990, about 600 have been privatized and continue to operate, while some 400 have been liquidated through the sale of assets. Increasing attention is being directed to at least partial if not full privatization of those large enterprises remaining on the rolls of the State Asset Holding Company.

Activities. Economic restructuring programs account for approximately 75% of USAID program funding, primarily short and long-term technical advisory services to support privatization and financial sector reform. Financing of the Hungarian-American Enterprise Fund (HAEF), whose grant authorization amount totals \$70 million, constitutes the single largest USAID-funded activity.

Examples of program activities include the following: USAID-funded Department of Treasury advisors form an important component of U.S. government support. They have provided advice on credit policies, lending analysis and risk management to two major Hungarian banks; three advisors have worked consecutively at the Ministry of Finance on issues relating to budget planning and bank reform. This assistance is being supplemented substantially by bank policy and privatization contract consultants and by volunteer bank reform experts from a USAID-funded grantee.

Over the past four years, USAID privatization assistance has been directed principally to the Hungarian State Property Agency and State Holding Company. USAID-funded investment bankers helped the State Property Agency to market and sell 600 state-owned companies, while transaction advisors helped to write tenders, evaluate bids, and negotiate deals. Under a separate project, USAID contractors have helped the State Property Agency to adopt new methodologies to finance transactions. USAID is the only donor providing technical assistance to the State Holding Company, where such assistance is helping the Government to restructure financially some 30 to 40 companies, in order to make them viable and salable as ongoing businesses.

USAID funding also supports the Peace Corps' European business development program, which trains entrepreneurs and local private sector support institutions to promote small businesses in rural areas. Other grantees include the MBA Enterprise Corps, whose graduates provided business advisory services to Hungarian firms during 12 to 18-month assignments.

USAID continues to finance the Department of Commerce's Eastern European business Information center, which compiles and distributes market information to the American business community. The Center responds to nearly 700 business inquiries a week, helping to match U.S. and Hungarian business resources and to promote partnerships.

Imparting business skills to the Hungarian agricultural community is being accomplished in a series of USAID grants to U.S. agribusiness institutions, including Volunteers in Overseas Cooperative Assistance and the American Cooperative Enterprise Center. These training activities -- many of them "hands-on" -- have exposed Hungarian farmers to new production and marketing techniques, while promoting continuing business relationships and demand for exports of U.S. agribusiness know-how and commodities.

Financial sector reform is likely to remain a top government priority. It is anticipated that USAID assistance will consequently extend further assistance to the Ministry of Finance's bank privatization secretariat and other regulatory agencies to strengthen supervision, transformation, and eventual privatization of Hungarian banks. USAID is providing capital and technical assistance to restructure

the housing finance sector by introducing sound, viable lending practices to Hungarian banks and reducing Government of Hungary (GOH) outlays to support housing. Privatization of remaining state-owned enterprises also will be of continuing importance. U.S. assistance will focus on improving and making more transparent the process, while continuing to develop innovative financial approaches. Post-privatization assistance to selected firms, particularly those privatized through employee stock ownership plans, will be initiated. Recognizing the importance of strengthening nascent small businesses as a crucial element of economic restructuring, U.S. assistance will seek to strengthen Hungarian institutions seeking to assist small businesses as well as assist in developing pilot credit guarantee and related financial programs.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective, all of which should be attained by mid-1996: (1) privatization of at least two strategic enterprises controlled by the State Holding Company before July 31, 1995 and a further two strategic enterprise by December 31, 1995; (2) energy regulatory framework in place with clear rate-setting responsibilities; (3) GDP share of production from the private sector increases from 55% to 60%; (4) bank's capital adequacy ratio does not degrade significantly from the current 8%; (5) one large bank privatized; and (6) commercial bank lending to private sector increases from 5% of total lending to 15%.

**Progress in 1993-1994.** While Hungary's macroeconomic environment is relatively stable, economic aggregates fall far short of attaining European Union criteria. Inflation and interest rates remain at levels above 20%; the budget deficit is about 8% of GDP; and foreign indebtedness stands at about 75% of GDP, among the highest in Europe. While official figures for unemployment indicate some improvement, such figures do not take into account the considerable numbers of chronically unemployed whose entitlements have been exhausted. Hungary remains in serious balance-of-payments deficit with its major trading partners, and remains dependent on foreign suppliers for one-half of its (reduced) energy needs. The private sector is estimated to account for 55% of GDP, but no reliable figures exist for the informal component, which is thought to be very substantial. The Hungarian forint is fully convertible in current account. Revenues from taxation in 1993-1994 were reported lower than anticipated, suggesting that tax evasion may be on the increase and that the tax burden may be borne even more disproportionately by salaried, lower-income Hungarians.

In the case of privatization and financial sector reform, USAID assistance has played a significant lead role in supporting Hungarian Government efforts -- so much so that USAID is considered by the government and other donor agencies as the most important and influential donor. U.S. assistance has been effective because it has been, for the most part, timely and innovative in responding to specific country needs. Assignment of skilled USAID funded advisors to key government agencies helped develop the capacity to design and manage the privatization process. Understanding client needs and the Hungarian business environment, USAID consultants helped Hungarian program designers to: initiate highly successful self-privatization and compensation notes programs; auction off more than 10,000 small retail operations (obtaining some \$2 billion in proceeds); and sell or liquidate some 600 enterprises. The evaluation of the USAID privatization program for Hungary concluded that approximately 85% of such assistance was successful. Despite the Hungarian government's at times cautious approach to financial sector reform, U.S. Government assistance has played a key role in maintaining forward momentum. USAID-funded U.S. Treasury advisors are major players in this effort, and their advocacy of the need to expedite bank privatization has been instrumental in defining the initial government steps to establish a bank privatization secretariat within the Ministry of Finance. Bank training in housing finance is supporting overall efforts to reform the banking industry and will link housing finance to capital markets.

Other successes in economic restructuring include the private enterprise development activities of the Hungarian-American Enterprise Fund, which has received some \$70 million in U.S. funding to engage in lending and equity participation, as well as to provide technical assistance and training for Hungarian entrepreneurs. According to Fund estimates, its investments have generated over 6,000 jobs. The

Fund's micro enterprise lending program, while modest in size, may provide the model for other bank lending programs. As of October 1994, the fund had disbursed \$42 million for equity investment in Hungarian businesses, provided \$5 million in small loans and \$500,000 in micro-loans, and provided some \$5.7 million in technical assistance to Hungarian entrepreneurs. Another USAID grantee, the Center for International Private Enterprise, was the only non-Hungarian institution invited to participate in the Hungarian Government's 1994 conference on small business development. USAID has also helped to improve energy efficiency through technical and training support of both government officials and private energy service companies.

Donor Coordination. Through these U.S.-funded advisors and other staff and consultants, the U.S. Government plays an important liaison role between the Hungarian Government and other donors active in economic restructuring, particularly the World Bank (IBRD). Although Hungary and the IBRD have not yet reached agreement on a new enterprise and financial structural adjustment loan, U.S. Government advisors have played a critical role in maintaining forward momentum on this important program.

Constraints. Hungary faces serious obstacles in establishing a base for long-term, self-sustainable growth. These include a structural debt problem which crowds out lending to the private sector, slow financial sector reform, and continued losses by state-owned enterprises (including banks) and many weak private firms (denying banks a solid client base for growth). Other problems include agricultural land tenancy issues. Their importance is that they compound each other, creating a vicious circle.

With the transition to a free market system exacting a heavy toll on a substantial percentage of the population, the Hungarian electorate voted back into power in 1994 the same party which relinquished office to a freely-elected non-communist coalition just four years earlier. While initial indications were that the new Socialist-Free Democrat coalition government was firmly committed to economic restructuring and financial sector reform, there has developed some concern as to whether deeds will accompany renewed statements of government commitment to these goals. Internal stresses within the coalition may develop if conditions worsen for the population at large; and there is no assurance that the new government will be able to maintain the pace and intensity of reforms if, for example, the economy takes a sharp downturn and political pressures argue for more protective measures.

#### **BUILDING DEMOCRACY (\$3,100,000).**

##### **SO 2. Support the transition to transparent and accountable government and the empowerment of citizens through democratic political processes (\$3,100,000).**

Many of Hungary's democratic institutions are in place and functioning. After nearly 45 years of communist governance, however, some of the new institutions are not fully formed and remain fragile. Hungary has a well functioning, multi-party democracy. Human rights and civil liberties are defined in the Hungarian Constitution and are further elaborated in a recent law on ethnic and minority rights. The right to a fair trial is provided by law and respected in practice. Local governments -- over 3,000 in number -- have broad responsibilities, many of them new and untested. While Hungarians have access to a free press, the central government continues to control the budgets of national television and radio. Many Hungarians are discouraged by the steady erosion of their living standards. Political apathy is a reality which is likely to grow, unless the population begins to feel a deeper sense of involvement and the need for participation in the political process. Thoughtful Hungarian observers note that economic restructuring and democratic institutional development must move in tandem, if Hungary is to transform its system successfully.

Activities. Much of the USAID assistance under this heading has been used to strengthen parliament, local government, the judiciary, and the election process through grants for training, travel, communications equipment and reference materials. Many of these activities are conducted in close collaboration with the U.S. Information Agency (USIA), which administers a number of U.S.-funded



programs in support of civic organizations, educational reform, media infrastructure support, books for democracy, rule of law, and English-language instruction. U.S. funds also underwrite the Fulbright Program for Hungary and the International Visitors Program.

U.S. Government assistance to parliament and to support the election process have been effective and are being phased out with emphasis shifting to greater support to strengthen the technical skills of local government in subjects such as finance, housing, environment, and social services. In support of this effort, national level responsibilities and degree of interaction with local governments will be clarified. Citizens' understanding of the democratic process and improved respect for human rights will continue to be encouraged through educational reform and support to indigenous voluntary organizations. Support for free and independent media continues to be needed, and assistance will be provided to stimulate national media legislation as well as to provide training and equipment for new broadcasters.

Indicators. The following is a partial list of provisional indicators measuring progress toward this SO, which should be attained by mid-1996: (1) increased availability of fact-based reporting by broadcast media free from government control; (2) number of volunteers and members of NGOs working to increase public participation in political life increases by 10%; and (3) private sector financial support for five target NGOs increases by 10%.

Progress in 1993-1994. Assistance to parliament, which included establishment of a Center for Parliamentary Management, donations of computers and reference books, and training of parliamentarians, was evaluated in 1994 and found to have been timely, well-targeted and well-received. Efforts to increase citizen understanding and participation in the democratic process have been made through curriculum development, teacher exchanges, and book translations at secondary and university levels. In addition, modest support was given to Hungarian organizations active in environmental protection, community development, and volunteer development. These activities are important and deserve to be expanded. A grant through USIA to the International Media Fund enabled the American Journalism Center to continue its operations, training radio and television journalism students.

Innovative use of local USAID funds to produce several voter education programs, on the eve of the May 1994 elections, enabled Hungarian television viewers to obtain a more objective presentation of election issues. This received favorable comment in the Hungarian press and may have contributed to the high election turn-out.

Donor Coordination. Democratic institution-building was not regarded by the previous democratically elected government as a matter of high priority. Other donors, including the British Know How Fund, provide discrete forms of assistance, but this is usually in response to ad hoc requests. The Know-How Fund, for example, has programs in local government, public administration, civil service training, management, and independent media. The European Union is working on human resource management and information systems within the central government and local government organization. The subject has been regarded as highly sensitive by the Hungarian Government, and there has been little opportunity, apart from sharing information, for interested donors to consider joint programs.

Constraints. A December 1994, USIA-commissioned public opinion survey concluded that, while the spring elections may have bolstered public confidence in the election process, 40% of Hungarians polled expressed willingness to trade political freedoms for the economic security enjoyed under communism. Two-thirds of those polled regarded the present democratic system as much or even more corrupt than the former system. Most regarded restoration of order and stability as the most important role of government, but only 25% thought that this was being assured in Hungary. Public reaction to continuing hardship during the restructuring process undoubtedly accounts for much of this nostalgia for earlier times and strengthens the previously cited observation that democratic institution-building

and economic restructuring must proceed in tandem, as they rely on each other for successful attainment. The human cost of industrial and trade transformation cannot be discounted. The risk is that reform weariness will create a political consensus to slow the reform process.

### **SOCIAL SECTOR RESTRUCTURING (\$8,850,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest groups of the population during the transition period (\$8,850,000).**

The economic transformation continues to cause severe dislocations, adversely affecting a large part of the Hungarian population. The reform process has proven to be far more difficult than originally envisaged. Much of the optimism which spurred the drive to convert to a market economy in 1989 has dissipated during four subsequent years of recession and unemployment. The social services infrastructure inherited from the communist era has proven inadequate to deal with transition strains. Poverty has risen sharply since 1989, while shrinking tax revenues are forcing cutbacks in existing programs. World Bank and other observers note a pronounced and widening gap between rich and poor, with one-quarter of the population currently living in poverty. In many respects, the return to power of the Socialists (i.e., reform communists) in the May 1994 elections is as much an expression of middle-class as lower-income earners' discontent with declining living standards and insecurity about recovery prospects.

Hungarian Government expenditures approach 60% of GDP (higher than any other European country except Sweden), of which over half relate to social programs; but the economic situation makes such outlays unaffordable. The interim response has been to transfer responsibility for many social services to the local governments, who lack both financial resources and requisite skills. Recent World Bank research indicates that social sector outlays have traditionally been allocated largely across-the-board, without being aimed exclusively or even predominantly at the poor. The transition to a market economy has led to greater income disparities, implying the need to restrict social programs to those who are losing ground. Hungary needs to move from a social program based on universally available benefits to one that is means-tested.

Activities. The U.S. assistance program for Hungary has devoted a significant share of its budget to social sector restructuring, focusing on unemployment, housing, and health-care financing. Assistance in these areas offers the opportunity to work more closely with local governments and NGOs. Assistance in these fields has been rather distinct and, in some aspects, highly innovative. Examples of USAID intervention include: a one-time \$10 million grant to help the Government subsidize winter heating costs for elderly pensioners during the relaxation of energy price controls; collaboration, through the U.S. Department of Labor, in establishing a model labor counselling and outplacement center for Baranya County; training in labor statistics through the Bureau of Labor Statistics; and technical assistance to Szolnok Municipality in introducing means-tested housing subsidies for poor families. New initiatives in housing can build on three years of experience in Hungary and further U.S. assistance will supplement the USAID housing loan guaranty program with technical assistance to national and local governments in support of housing sector reform. Perhaps the most visible undertaking by USAID has been its continuing support of pediatric oncology outreach activities in Budapest on behalf of child victims of cancer.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Central government expenditure on social services decreases from 34% of GDP to 32% by the end of 1996; (2) in target areas, local government expenditures on housing subsidies reduced by 5% in real terms by the end of 1996; (3) placement rates for newly unemployed workers in firms in counties where interventions are operating exceed national average by 10% by mid-1996; (4) compared with the national average, the quality of health care services in target areas is improved by mid-1996, based on consumer questionnaires, on decreases in mortality rates, and on reduced

recovery times; and (5) number of volunteers and members of NGOs working to provide social services complementary to government services increases by 10% by mid-1996.

Progress in 1993-1994. Assistance to the Baranya labor center was well received by the Ministry of Labor. An independent audit of the one-time \$10 million energy grant confirmed that the funds had reached the intended beneficiaries. Participants in the U.S. Department of Labor statistical training project reported that their skills had facilitated implementation of Hungary's much needed household survey, to obtain vital labor market data. Introduction of highly innovative means-testing assistance to Szolnok, to ease the impact of rising rents on poor families, has been reported to be highly successful and may prove suitable for replication. USAID assistance through the pediatric oncology project has helped to reduce the child mortality rate from cancer by 80% and continues to receive very favorable attention in the press.

Unemployment, a major problem for Hungary, has received attention from other donors. Because of the immensity of the problem, however, continued U.S. assistance is fully justified but must be carefully focused to avoid duplication and, at the same time, to introduce new approaches which other donors may wish to support. For this reason, U.S. assistance will focus initially on mass layoffs at the individual firm level, resulting from privatization and firm restructuring. As a first venture, USAID and U.S. Department of Labor initiated a rapid response project in 1994 which will assist municipalities in identifying impending redundancies, in counselling displaced employees, and in trying to match their skills with new sources of venture capital attracted to the area.

Donor Coordination. USAID and other locally represented donors consult regularly, both in periodic meetings and on an ad hoc basis. Some of the best research on social sector problems is being conducted under World Bank and International Labor Organization auspices, drawing upon the abundant skills of Hungarian universities and research institutes. The joint USAID and Department of Labor rapid response project best demonstrates how such coordination can help to join innovative approaches with donor resources. This project was designed in full consultation with representatives of the World Bank and European Bank for Reconstruction and Development. The project constitutes a pilot scheme in unemployment mitigation which may attract considerable non-U.S. funding, both through possible replication and through attracting joint venture capital to places of potentially high unemployment. The World Bank has been particularly active in assisting the restructuring of the health sector. USAID is the only donor involved in the housing sector and has the opportunity to make a significant impact.

Constraints. Obstacles to social sector restructuring are integrally linked to broader macro economic challenges. Many of the problems facing Hungary stem from trade dislocation and inability to compete in the new global market setting. Scarcely five years ago Hungary enjoyed a preferential trading position within the communist bloc, which assured ready markets for its industrial and agricultural products and cheap sources of energy. High expectations of rapid restructuring and adaptation to the global market were frustrated not only by technical and managerial shortcomings but also by U.S. and West European protectionism against Hungarian agriculture and an unforeseen and prolonged global economic recession. The latter are complex problems, entailing highly sensitive inter- and intra-governmental issues.

#### **Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States provided about 10% of technical assistance to Hungary. Other major donors are: the World Bank, European Bank for Reconstruction and Development, European Union/PHARE, Italy, United Kingdom, Canada, and Germany.

**FY 1996 PROGRAM SUMMARY  
HUNGARY**

<b>USAID Strategic Objectives</b>	
<b>Economic Restructuring</b>	<b>\$ 15,450,000</b>
<b>Building Democracy</b>	<b>\$ 3,100,000</b>
<b>Social Sector Restructuring</b>	<b>\$ 8,850,000</b>
<b>Total</b>	<b>\$ 27,400,000</b>

USAID Representative: David L. Cowles

## IRELAND

**FY 1996 Economic Support Fund Request: . . . . . \$29,600,000**

The United States provides economic assistance to Ireland through the International Fund for Ireland (the Fund). The Fund's mission is to support and promote social reconciliation through economic development in Ireland and Northern Ireland, with priority given to new investments that create jobs and reconstruct disadvantaged areas. The United States has granted approximately \$228,000,000 to the Fund since its inception in 1986.

Recent developments in the peace process in Ireland provide an improved environment for achieving the Fund's goals. On August 31, 1994, the Irish Republican Army (IRA) declared an end to 25 years of armed struggle. In the wake of the cease-fire, the British and Irish governments have taken several steps to advance the peace process; and the British government has begun to engage Sinn Fein, the political arm of the IRA, in roundtable discussions to continue this effort. The United States aims to help break the cause of the cycle of conflict and despair by helping to engender trust among parties and to create the perception of a level playing field among all groups. These conditions are critical for trade, investment and job creation. It is essential to bring the most disadvantaged communities into the mainstream of economic and social development. The Fund has been useful in encouraging communities to take ownership of projects which can benefit their areas. The jobs and social stability which result from U.S. contribution to the Fund are a tangible expression of the United States policy of encouraging peace and reconciliation through economic progress in Northern Ireland.

### **The Development Challenge.**

A key issue in the political conflict in and over Northern Ireland is equal opportunity for Protestants and Catholics. All major social and economic indicators show that Catholics in Northern Ireland are more disadvantaged than Protestants. The most persistent area of inequality has been employment, where statistics show the rate of unemployment among Catholic males twice that of Protestant males. Long-term unemployment is particularly acute, with 55% of the unemployed being jobless for a year or more. Inability to travel freely throughout the security zones has affected employment opportunities for both Catholics and Protestants. Nationalists have been reluctant to seek employment in occupations in the security zones. The urban decay, unemployment, and lack of trust in these areas will take years to rectify. However, as the new political dialogue widens to bring to the table a wider range of actors, many of these areas of concern can begin to be addressed.

### **Strategic Objectives (SOs).**

#### **SO 1. Promoting peace in Northern Ireland and the Republic of Ireland (\$29,600,000).**

The Fund was created in 1986 to promote and support grass-roots efforts to reconcile the different communities in Northern Ireland and the bordering counties in the Republic of Ireland. The Fund is multilateral and non-partisan. It views itself as a temporary facility to catalyze and support economic, political and social initiatives aimed at permanent reconciliation among the Catholic and Protestant communities. It disburses funds in accordance with the economic and social policies and priorities of both the Irish and United Kingdom governments, and ensures impartiality to regions, communities and religions with regard to its board membership, administrative employment, and disbursements. Funding supports employment generation and investment promotion, with special emphasis on projects promoting communal reconciliation.

Activities. The Fund's principal efforts are directed at reducing the economic hardships of unemployment and community infrastructural decay in order to reduce the economic differences that exacerbate social disruption along religious lines. The Fund accomplishes these objectives by

stimulating private investment and encouraging voluntary efforts with special emphasis on projects promoting communal reconciliation.

The fund will assist a White House Conference on Trade and Investment to be held in May 1995. The conference will show U.S. companies that the peace process is dramatically improving business opportunities on the island of Ireland and particularly in Northern Ireland and the border counties. The conference is intended to encourage support for U.S. investment which will enhance employment possibilities throughout the area.

Entrepreneurs in Northern Ireland have little access to financing to start or expand their small businesses. To more effectively meet the financing needs of micro and small enterprise, the Fund will finance an exchange of technical knowledge with organizations such as Shorebank and Accion International, which have designed cost-effective and sophisticated enterprise lending programs.

A special program was begun in 1990 to focus on disadvantaged rural areas and towns in Northern Ireland. It is estimated that some 29,000 jobs will be created directly and indirectly through all Fund projects approved to date. Of the 20,322 jobs to be created directly, nearly 14,000 are in the areas of highest unemployment. Of the 8,440 jobs to be created indirectly, over 5,000 are in the most disadvantaged areas. In addition, it is estimated that the projects supported by the Fund will generate over 25,000 construction jobs.

A new initiative launched since the peace process began is support of a University of Ulster campus at Springvale in Northwest Belfast. The \$7.5 million contribution will be used to develop campus facilities which will have the most direct regenerative impact on the wider community area.

Indicators. With U.S and other donor contributions expected through 1996, the total number of jobs created by the Fund will approach 41,200.

Progress Since 1986. Working through sectoral program teams, the Fund has approved over 3,000 projects and disbursed \$265 million to these projects. Other donor contributions also have been committed to projects in the areas of urban development, agriculture, technology, tourism and community development.

**Other Donor Resource Flows.**

The Fund's activities are financed through international contributions from the United States, the European Union, Canada, New Zealand and Australia. Each of the donors sends a non-voting observer to all Board meetings. In 1993, the United States was the largest donor to the Fund, providing 67% of total donor funding. Appropriately, the European Union now is overtaking the United States as the largest annual donor to the Fund.

**IRELAND  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Promoting Peace	\$ 29,600,000
Total	\$ 29,600,000

Director, Office of European County Affairs: Peter Orr

## KAZAKHSTAN

**FY 1996 Assistance to The NIS Request: . . . . . \$ 62,000,000**

Kazakhstan, the world's largest land-locked country, is the second most populous of the five former Soviet states of Central Asia. U.S. national security interests are served by strong ties with Kazakhstan, which is one of only four of the newly independent republics in the former Soviet Union to inherit nuclear weapons. It was also the test site for Soviet nuclear experiments and the launching site for the Soviet space program. An early leader in the move toward democracy and a market economy, Kazakhstan actively seeks Western trade, investment and economic support. There is potential for considerable commercial benefit for the United States from trade and investment in Kazakhstan, especially in the area of oil and natural gas production.

### **The Development Challenge.**

Kazakhstan is the largest recipient of U.S. assistance in Central Asia. The USAID Regional Mission for Central Asia is located in Almaty, the capital of Kazakhstan. The central development challenge is to help support and shape the country's transition to a democratic, market-based society that is an open, active and responsible participant in the wider community of nations. While sharing the same goals as other USAID programs in the New Independent States (NIS), specific interventions have been designed and implemented to accommodate Kazakhstan's particular circumstances.

### **Strategic Objectives (SOs).**

USAID is pursuing the following strategic objectives in Kazakhstan.

#### **ECONOMIC RESTRUCTURING (\$46,000,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$46,000,000).**

Further macroeconomic policy reform is needed to strengthen and sustain Kazakhstan's emerging market economy. Key areas include fiscal policy, price stability, resource mobilization and budgeting. A weak administrative capacity often inhibits effective implementation, even once policy changes have been announced.

The majority of assets remains in state hands. Mass privatization programs have been slowed by bureaucratic inertia, lack of transparency, and changing regulations on key issues such as share tradeability and the exclusion of outside investors. Recent changes in government suggest faster progress will be made in the future.

A complex, inconsistent and poorly managed legal and regulatory environment hampers both local and foreign investment. Lack of clearly articulated ownership rights and the absence of effective bankruptcy legislation have had an especially chilling effect on potential investors. Related regulatory problems stand in the way of the development of effective capital markets. Until these problems are dealt with, domestic resource mobilization will be limited, and foreign investor interest will continue to lag behind.

**Activities.** (A) Macroeconomic environment: USAID is assisting Kazakhstan in drafting new or revised legislation related to the tax code, central and commercial banking, accounting, external debt, and securities and the stock market. Pension reform will also be supported by USAID. In addition, assistance will be provided to the government in developing a budgetary chart of accounts, a revised annual budget planning and implementation system, and a revised intergovernmental (central-oblast) financial system. USAID will help the government establish a tracking system for external debt.

Financial sector assistance will include help in initiating new accounting standards and chart of accounts in the Central Bank, commercial banks, and public or publicly traded enterprises.

(B) Privatization and Enterprise Development: USAID assistance will focus on developing regulations and guidelines for the transparent trading of enterprise shares and on limiting the role of holding companies and monopolies. USAID also will help conduct public education campaigns to educate the population about the validity and advantages that accrue from privatization. The Central Asia Enterprise Fund will provide both loan and equity financing and related technical assistance to Kazakhstani enterprises. The Fund also will establish a small business lending program. USAID is funding a comprehensive program to develop a capital market, including creation of a new securities commission, a private sector exchange, and private sector share registries, depositories and clearing and settlement entities.

(C) Legal and regulatory framework: USAID advisors will assist in the drafting of civil and commercial codes and implementing regulations, new foreign investment legislation including mineral provisions, and new property law, contract law and bankruptcy legislation. USAID will work with Kazakhstani counterparts to draft legislation regarding energy policy and regulation. This will be followed with assistance in corporatization and private investment in energy entities.

(D) Structural reform: To support new commitment to reform, USAID will provide funds for structural reform support to enable the United States to support, on short notice, the efforts of countries embarking on programs of comprehensive economic restructuring. The USAID-funded assistance will likely take the form of commodities, commodity transport, and trade or investment credits that can be counted toward filling balance-of-payments gaps as these new reformers come to terms with the IMF or World Bank on structural adjustment loans. United States contributions to this process are critical in influencing other bilateral donors to participate and can greatly influence the commitment of NIS republics to embark on comprehensive economic reform. Kazakhstan is among the countries most likely to qualify for these funds.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the percentage of commercial banks satisfying standard capital adequacy increases from 0% in 1994 to 60% in 1995 and 80% in 1996; (2) investment in mass privatized assets as a percentage of total coupon investment increases from 25% in November 1994 to 50% by December 1995; (3) foreign investment legislation guaranteeing property and profit repatriation rights of foreign investors is in place by June 1996; (4) fifteen internationally accepted accounting standards are established and adopted by 6/30/95; and (5) between December 1994 and December 1995, 2,915 small state-owned enterprises are transferred to private ownership.

Progress in 1993-1994. Kazakhstan successfully introduced a new currency in late 1993, allowing it to independently manage its own monetary policy. Flexible exchange rate mechanisms were established during 1994. The government also made significant progress in price and trade liberalization and made credible efforts to control the deficit through short-run cash management strategies. In addition, the Central Bank increased reliance on indirect instruments of monetary control, raised rediscount rates, and tightened supervisory requirements for the commercial banking sector. USAID-sponsored technical assistance in banks and government ministries contributed to progress in these and related areas. In particular, assistance in drafting laws and regulations, and the establishment of a well attended bankers training program, provided important impetus to the economic restructuring effort.

A more coherent privatization strategy has been developed and put into place. Considerable progress is being made in the small enterprise, wholesale, retail and transport sectors, all areas where USAID is especially active. A national small-scale privatization program was launched, with active USAID assistance, in early 1994. By the end of November 1994, 426 auctions had been held, resulting in the sale of more than 2,600 entities. USAID consultants are also assisting in a coupon-based



privatization program for medium and large-scale enterprises, which will result in the sale of 2,500 additional businesses.

Efforts to improve the regulatory environment will be an area of major focus during the 1995-1996 period. Considerable preparatory work has already been undertaken. For example, USAID consultants are assisting the National Securities Commission as they develop a regulatory framework which protects investors. Similar assistance, necessary to ensure that local accounting standards are acceptable at an international level, is being provided to the Accounting Standards Board. A number of other seminars, training and technical assistance programs have also been undertaken, all aimed at improving the legal and regulatory environment for business development.

Donor Coordination. Kazakhstan was among the first of the newly independent states to have a full International Monetary Fund (IMF) program. The World Bank, Asian Development Bank, European Bank for Reconstruction and Development and other donors are all active and coordinate closely with USAID on macroeconomic and financial sector policy advice.

The World Bank, the European Union (EU), and USAID coordinate on all aspects of the privatization program. The World Bank is expected to undertake a major effort in agricultural land privatization, an area where USAID has been inactive due to budget constraints.

USAID is the only donor working on capital markets development in Kazakhstan. Work on the civil code will be coordinated with European counterparts. USAID is cooperating with the World Bank and EU/TACIS in the energy sector.

Constraints. Kazakhstan has made remarkable progress over the last three years in transforming itself into a modern economic state. Nonetheless, the legacy of rigid control from Moscow, combined with Kazakhstan's distance from international markets and ignorance of Western business practices, continues to pose problems. Given Kazakhstan's size, regional authorities have sometimes been less than responsive to national mandates on privatization. Corruption, both real and perceived, is also a problem, leading to a loss of public confidence in the privatization process. Although top levels of government appear committed to affecting wide-ranging economic reform, weak administrative capacity and conflicting interests at local levels often hamper implementation. An older generation of managers, more familiar with old-style Soviet commercial approaches, also stands in the way of change.

#### **BUILDING DEMOCRACY (\$10,000,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$10,000,000).**

Support for Kazakhstan's young democratic institutions is needed in a variety of areas. The parliament has proved to be relatively open and interested in enhancing its effectiveness as a check on the executive branch. Also important is strengthening local governments' capacity to be responsive to citizens' needs and to conduct operations in an open and transparent way. A strong nongovernmental organization (NGO) sector can play an important role in articulating local needs and serving as a counterweight to strong central control. As such, it is an important element in building and sustaining a strong civil society. Consistent and effective civil and commercial laws are vital, both for an efficient market economy and to advance wider democratization goals. An independent media should be a powerful and vital avenue of information, enabling citizens to hear all sides of an issue and to make informed decisions.

Activities. To promote transparency and accountability in democratic governance, USAID will help establish a legislative information management system in parliament and a government auditing capacity. USAID will also consult with government officials on executive actions which should be

made public. To strengthen local government capacity USAID advisors will introduce systems for municipal budgeting, finance, and management in the city of Atyrau, and install computer-based planning and management systems. An accompanying training program will ensure broader replication of demonstration efforts in Atyrau. Advocacy training and small grants are being provided through USAID to local NGOs. USAID is also supporting the development of a legal and regulatory environment more conducive to NGOs. In the media area, training and technical assistance are being offered to strengthen public interest reporting and the effective use of media during elections. Support for rule of law in Kazakhstan includes workshops and training for legislators and others involved in the development of commercial and civil law; and advice in improving the administration of justice, legal procedures, and administrative management.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the number of viable political parties representing significant segments of society increases; (2) the constitutional and legal framework for the protection of media is developed by the executive and legislative branches of government by December 1995; (3) new and revised civil codes that protect individual civil and property rights are developed and adopted by the executive and legislative branches of government; (4) parliamentary procedures are adequately developed as evidenced by (a) an increased percentage of draft legislation discussed by parliament; (b) an increased proportion of legislation reflecting constituent interests; and (c) the establishment of a legislative history; and (5) by the end of 1997, approximately 200 staff from six NGOs trained in skills such as fund raising, financial management, membership drives, program development, networking and communication.

Progress in 1993-94. Despite criticisms surrounding 1994 parliamentary elections, the new parliament is demonstrating its independence and willingness to engage with the executive branch of government. USAID is supporting this through direct discussions with key parliamentary committees aimed at strengthening their drafting, oversight, audit and other capabilities. The signing of a bilateral memorandum of understanding in November 1994, giving legal status to U.S.-funded NGOs in Kazakhstan, will aid in the establishment of a stronger NGO sector in Kazakhstan, though local NGOs still face obstacles to free operation. Establishment of a civil and commercial legal framework is proceeding, with consideration of judicial reform legislation scheduled for 1995. USAID-sponsored seminars and advisors have provided input to a draft constitution, parliamentary reorganization, juvenile justice issues, a draft law on the courts, property and contract law, and a decree on permitting land to be transferred under long-term land leases. While freedom of the press is not yet fully established, a USAID-supported press club in Almaty, the first of its kind in Central Asia, has conducted seminars on freedom of the press, the role of the media in covering political events, and economic reporting.

Donor Coordination. USAID is the major donor involved in democratization issues. USAID coordinates with the Organization for Security and Cooperation in Europe (OSCE) in election-related media assistance, the Soros Foundation and other donors in NGO support activities, and the World Bank in commercial law development.

Constraints. The executive branch of government fears the inevitable scrutiny associated with a strong parliament; criticism, even constructive criticism, can fuel a tendency toward recentralization and attempts to control opposition. While some local officials welcome change, others are concerned over a loss of possible powers and positions stemming from the old appointment and patronage system. The lack of a strong democratic tradition and the basic building blocks which form the basis for a civil society also stand in the way of democratic development in Kazakhstan.

## **SOCIAL SECTOR RESTRUCTURING (\$6,000,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$6,000,000).**

Improving the delivery, sustainability and quality of core social services is crucial to improved social welfare and the building of popular support for the economic and political reform process in Kazakhstan. New and creative approaches to social service delivery, including greater use of private providers, is one way to prevent further erosion of benefits.

Health is a highly visible area of the social sector, and as such commands considerable public attention. Failure to deal with the current problems in the health sector may weaken confidence in both local authority and the reform process itself. Improved legal, regulatory and financing mechanisms are needed for the health sector in order to improve and sustain the delivery of health services. The restructuring of Pharmatsia (the organization which controls pharmaceutical procurements throughout the country), combined with the privatization of retail pharmacies, should contribute to pharmaceutical security in Kazakhstan. Concurrent efforts will need to be directed toward developing rational distribution and use patterns for pharmaceuticals and vaccines. Efforts are also underway to promote the private marketing of contraceptives. Expanding the delivery of potable water and addressing environmental health issues are also critical social concerns in Kazakhstan.

A rational housing policy is a central component of a new, public welfare regime. Approximately 70% of the total housing stock is now in private hands, but providing effective maintenance to newly privatized houses and apartment blocks is proving difficult in some cases. Therefore, USAID assistance is directed to the targeting of housing subsidies and development of policies that ultimately allow for improvements in the availability and quality of housing stock.

Activities. USAID will play a major role in the reform of social maintenance programs by providing technical support for the reform of pension policy and administrative practices in Kazakhstan, and by supporting the legal and regulatory infrastructure necessary to support a two-tier pension system. Under the housing sector reform project, USAID will continue to work on developing policies to replace subsidized rent with targeted support for vulnerable renters. Training and seminars will be used to promote the development of professional standards and capabilities in the housing sector. Model activities are being introduced to demonstrate how alternative, private sector-based approaches can be developed to address key issues related to housing construction, maintenance and rehabilitation.

Health finance systems will be strengthened by examining alternative options such as insurance schemes, privatization, or continued public financing of certain services. Specific assistance is planned to help privatize Pharmatsia and all retail pharmacies. USAID work with hospital and primary care demonstration sites aims to increase the facilities' productivity and efficiency. The medical partnership with the University of Tucson is strengthening clinical nursing and management practices. The Centers for Disease Control and Prevention will provide technical assistance to the government to improve public health surveillance systems and response to disease outbreaks. Technical assistance will be provided to support sustainable childhood immunization services. Modernization of reproductive health practices is underway to reduce the high levels of maternal mortality and reduce abortion prevalence. Expansion of the commercial availability of contraceptives will contribute to sustainability of the program. USAID is supporting the World Bank's efforts to privatize industries in south Kazakhstan by assisting industries with divestiture of health facilities. Assistance will be provided to improve the legal and regulatory environment surrounding the social sector in Kazakhstan, especially with respect to private medical practice and pharmaceuticals.

A hospital partnership is being established between the Methodist Hospital of Houston and Kazakhstani partners in Semipalitinsk. Assistance will focus on clinical and administrative reforms specifically related to the environmental consequences of over forty years of nuclear testing in the region. Finally, the Aral Sea initiative includes specific programs to improve water quality, access to clean drinking water, and regional management of scarce water resources in the Aral Sea region.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the housing code, including a condominium law, landlord and tenant rights and

eviction procedures, is revised and adopted; (2) legislation liberalizing land use and transfer rights is put in place by June 1996; (3) regulations that treat state and private pharmacies equally is developed and adopted; and (4) increase in the number of households with access to safe drinking water.

Progress 1993-1994. USAID technical assistance and training in reproductive health care programs, as well as other health areas, has been well received and has resulted in changes in practices and procedures. In November 1994 commercial sales of affordable, high quality contraceptives began in 90 pharmacies; this will help reduce the number of women seeking abortion and improve women's health. An intensive health financing demonstration site was initiated in 1994 in Chimkent, with a view toward demonstrating various financing modalities for health care and public sector cost saving measures. Simultaneously, training in health care finance significantly influenced the government's decision to develop health insurance legislation. Members of parliament who benefitted from the training have already approached USAID for technical advice on health insurance legislation. USAID advisors helped develop a plan for the privatization of the pharmaceutical marketing and distribution system in Kazakhstan; the plan should result in privatization of the system in 1995. USAID also initiated a pilot program in the social marketing of contraceptives in commercial outlets in three Kazakhstani oblasts. By the fall of 1995, this program will be expanded to all 19 oblasts in the country, affecting the lives and health of almost 3 million women of reproductive age. Finally, USAID provided technical assistance and training relating to the development of new types of health care financing mechanisms. These are now being tested in demonstration sites and should help to effectively privatize primary care delivery. Forty-two private group practices have begun in south Kazakhstan as a result of USAID assistance to industries in divesting health facilities.

USAID assisted the Ministry of Housing in the development of property appraisal, housing laws, and land privatization strategies, all of which should eventually transfer substantial capital assets to the populace and reduce government subsidies. USAID developed a pilot project for the privatization of management and maintenance services for approximately 1,000 apartments in Almaty. Other technical assistance programs resulted in the city of Almaty's first-ever auction of land rights in January 1995. USAID has sponsored programs for real estate developers and government officials on the basic concepts of mortgage and construction financing.

The Aral Sea program was formally launched in 1994.

Donor Coordination. USAID is a leader within the donor community on key issues related to health financing, family planning, vaccinations and disease control and housing; ongoing activities are coordinated with those of other donors. USAID has played a predominant role in establishing the Interagency Immunization Coordinating Committee (IICC) which is the framework for coordination of donor support in immunization delivery and disease control in the NIS.

Constraints. The rhetoric of the "cradle to grave" social policies of the past is difficult to overcome. Top-down, directed development approaches during Soviet rule did not engender efficient management practices across a range of social sectors. In the absence of large-scale cash transfers from Moscow, approaches from the past simply cannot be maintained or sustained. Though reforms should introduce efficiencies into the health care and housing sectors, attitudinal change will be required to ensure effectiveness.

#### **Other Donor Resource Flows.**

According to statistics from the Development Assistance Committee of the Organization for Economic Cooperation and Development, the United States provided about 55% of all official development assistance to Kazakhstan in 1993. Other major donors are the Economic Development Fund of the European Union, Japan, the United Kingdom, and the United Nations Population Fund.

**KAZAKHSTAN  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$46,000,000
Building Democracy	\$10,000,000
Social Structure Restructuring	\$ 6,000,000
Total	\$62,000,000

USAID Regional Mission Director: Craig Buck

## KYRGYZ REPUBLIC

**FY 1996 Assistance to the NIS Request: . . . . . \$ 17,000,000**

The Kyrgyz Republic is unique among the five Central Asian Republics in that its President is democratically elected and non-communist, its government is relatively open and expression is generally free. It also has been the most receptive of these new states to new ideas and innovation. As a result of steady progress on democratic and economic reform, it is the second largest recipient, and largest per capita recipient, of U.S. assistance in the Central Asia region. United States interests are served by supporting the reform process in a country with such promising prospects for a successful transition.

### **The Development Challenge.**

Kyrgyzstan's progress in fiscal and financial reform has been impressive in some areas. It was the first regional state to break from the Russian ruble and launch its own currency. Despite severe budget pressures, it has done relatively well in containing inflation and deficits. But this pragmatism and openness cannot hide underlying problems. The country's natural resources are limited, though there is considerable potential for hydropower development, adventure tourism and possibly certain kinds of high-value agriculture. Isolation, poor transportation networks and a highly inefficient industrial sector remain major stumbling blocks.

The development challenge is to assist the Kyrgyz Republic in staying the course on economic and political reform and in turning itself into a dynamic and integrated member of the world community. Over the short term, an adjustment to a lower living standard will have to be made as Kyrgyzstan works to restore and build trade and processing links with states of and beyond the former Soviet Union and contends with democratic and market economic reforms.

### **Strategic Objectives (SOs).**

USAID is pursuing the following strategic objectives in the Kyrgyz Republic.

#### **ECONOMIC RESTRUCTURING (\$12,000,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$12,000,000).**

Kyrgyzstan has moved aggressively on macroeconomic reform. Its new currency has been the most stable in the region, owing to improved monetary management policies and flexible exchange rate management. Despite previous high levels of industrial subsidies and poor revenue collection, it has used short-run cash management strategies to contain the deficit. The Central Bank and Government have been responsive to, and appreciative of, assistance.

Some defense-oriented enterprises, now lacking both suppliers and markets but with large numbers of workers on their rolls, remain under state control. They impose an unsustainable social, financial and management burden on a weak central government. USAID, along with other donors, is prepared to assist with their restructuring or liquidation on a case by case basis.

As in neighboring Kazakhstan, the large number of newly formed and recently privatized enterprises, and those awaiting privatization, suffer from weakness in the legal and regulatory environment. The absence of protection for basic ownership and investor rights normally embodied in civil and commercial codes, contract law, and company law contributes to an economic environment marked by endemic uncertainty. Thus, a willingness by foreign and local entrepreneurs to invest is limited. With the exception of gold mining and other limited mineral processing or trading activities, there has

been little foreign direct investment and related availability of external management skills thus far.

**Activities.** (A) Macroeconomic environment: USAID is assisting the Kyrgyz Republic in drafting new or revised legislation related to the tax code, central and commercial banking, accounting, external debt and securities and the stock market. Assistance also is being provided in developing a budgetary chart of accounts, a revised annual budget planning and implementation system, and a revised intergovernmental (central-oblast) financial system. USAID will help the government establish a tracking system for external debt. Financial sector assistance will include help in initiating new accounting standards and chart of accounts in the Central Bank, commercial banks and public or publicly traded enterprises.

(B) Privatization: Planned activities include monitoring privatization legislation, auction procedures and training facilities; making adjustments needed to promote broad-based participation and to prevent collusion; developing regulations and guidelines for the transparent trading of enterprise shares; developing a private stock exchange, private sector share registries, depositories and clearing and settlement entities; limiting the role of holding companies and monopolies; conducting effective public education campaigns to promote the benefits of privatization and participation in it by private domestic and foreign individuals, funds and entities; and providing post privatization assistance to a range of enterprises.

(C) Legal and regulatory environment: During 1995-1996, USAID advisors will assist in the drafting of civil and commercial codes and implementing regulations, new foreign investment legislation including mineral provisions, and new property law, contract law and bankruptcy legislation. The Central Asia Enterprise Fund is opening an office in Bishkek to provide both loan and equity financing and related technical assistance. The Fund will establish a small business lending program in Kyrgyzstan. USAID will work with Kyrgyz counterparts to help draft and review legislation regarding energy policy and regulation. This will be followed with assistance in corporatization and private investment in energy entities.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the following commercial laws are put in place: modern contract law by December 1995; modern bankruptcy law by December 1995; modern civil code by December 1995; modern commercial code by December 1995; foreign investment legislation guaranteeing property and profit repatriation rights of foreign investors by June 1996; (2) 2,915 small state-owned enterprises transferred to private ownership between December 1994 and December 1995 and 650 medium state-owned enterprises transferred to private ownership between December 1994 and December 1995; (3) investment in mass privatized assets as a percentage of total coupon investment increases from 25% in 1994 to 50% by December 1995; (4) stock market institutions in place and securities legislation passed by June 1994; (5) an active secondary market trading system established by December 1995; and (6) an independent securities agency established and legal and regulatory framework with effective surveillance and enforcement mechanisms and qualified personnel in place by June 1995.

**Progress in 1993-1994.** In the summer of 1993, Kyrgyz authorities, responding to pressure from large cash-strapped, state-owned enterprises, injected liquidity into the banking system to help clear arrears. Since then, discipline in the face of pressures has prevailed. Monthly inflation rates have fallen to single digits, rare in the New Independent States (NIS) of the former Soviet Union. The National Bank, benefiting from USAID technical assistance, has contained the money supply, raised rediscount rates and tightened supervisory requirements on the commercial banking sector.

Despite early problems due to inexperience in a complicated process initially conducted without outside technical assistance, the privatization program is moving ahead. In the Kyrgyz Republic, unlike in Kazakhstan, individuals, as well as investment funds, can purchase shares in enterprises. Share tradeability, shareholder rights, registries and issues of corporate governance continue to receive the attention of consultants and officials.

Initial work on the legal and regulatory framework completed during 1993-1994 includes development of a regulatory environment for securities and the formation of a securities and exchange commission and a stock exchange.

**Donor Coordination.** The donor community is small in Bishkek. Coordination is good among USAID, the International Monetary Fund, the World Bank, the European Union, and the Swiss government on macroeconomic and financial sector assistance. USAID is the only major donor contributing to the Kyrgyzstan privatization program, and the only donor working on capital markets development. USAID-funded energy privatization advisors coordinate closely with the European Union, which is also working in this area. The World Bank is considering a project to improve the district heating system, based in part on USAID's earlier experience. USAID energy pricing and taxation analyses were used by the World Bank and the International Monetary Fund in planning electric power sector reform and privatization measures.

**Constraints.** During its brief three years of independence, the Kyrgyz Republic has done very well within its limited resource base. Geographic isolation, poor transport and communication links, and a limited natural resource base will constrain future growth.

#### **BUILDING DEMOCRACY (\$2,000,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$2,000,000).**

After the collapse of the former Soviet Union, Kyrgyzstan was among the first on the road to reform and democracy. Some early initiatives have slowed, but the climate for change still exists. The President was an outsider and not part of the previous power structure. A relatively free press and opposition parties began to grow shortly after independence.

Institutions, standards and procedures all need to be developed to ensure a fair electoral process in an environment in which such concepts and their accompanying implementation mechanisms are still new. The development of democratic political parties with wide popular participation is also essential. A parliament with strong oversight capabilities is needed to reflect popular will and to effect the constitutional and legal framework for a democratic society. Effective balance of powers requires a strong and independent judiciary with a mandate and a will to rule on constitutional issues and ensure rule of law. Finally, efforts to build nongovernmental organization (NGO) capability and decentralize local and municipal governments are needed, making them more open, transparent, and responsive to citizens' needs.

**Activities.** USAID supports nonpartisan domestic poll monitoring, pre-election technical assessments, voter education, review of elections law, and civic group activities related to free and fair elections. USAID encourages local NGOs to work with elected officials at the parliamentary and local level. Seminars and workshops on political party development, coalition building, and conflict resolution have either been offered or are in the planning stages. Training and technical assistance to the judiciary and advice on developing an independent bar association are also supported by USAID. After the February 1995 elections, USAID will cooperate with the Kyrgyzstan parliament to strengthen legislative functions, especially in the area of transparency, oversight and accountability. Small grants to human rights NGOs will be made. Local government efforts, focused in the city of Karakol, include: assistance in municipal budgeting, finance and management; installation of computer-based planning systems; and undertaking training programs to ensure broader replication of demonstration efforts.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the election authority is operating independent of political interference; (2) free and fair elections are held at all levels of government; (3) legislation or other measures that facilitate independent political parties to function and operate without pressure are adopted; (4) legislation



providing for an independent judiciary is developed and adopted; and (5) the percentage of surveyed citizens who believe that the courts are free of political control and influence increases.

Progress in 1993-1994. Initial training exercises and workshops have enhanced the ability to monitor elections and have strengthened views among local counterparts about the importance of an independent judiciary.

Donor Coordination. USAID cooperates with the Organization for Security and Cooperation in Europe (OSCE) in key areas related to election assessment and monitoring. The Council of Europe, the Furth Family Foundation, and the Center for Democracy participated with the USAID-funded contractor in sponsoring workshops on judicial development. Related activities will be coordinated with these and other donors. USAID is the only donor active in parliamentary and political party strengthening.

Constraints. Historic attitudes stemming from past political control discourage people from believing that voting can really make a difference and that the Parliament can be more than a rubber stamp. The Soviet legacy works against a vibrant, multi-party system. Even those who state their commitment to democracy have difficulty dealing with public criticism and an organized political opposition. Traditional habits of doing public work in a private, secretive way are not compatible with democracy. A low level of technical and computer expertise among public servants also poses problems.

#### **SOCIAL SECTOR RESTRUCTURING (\$3,000,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$3,000,000).**

Improving the quality, delivery, and sustainability of core social services is crucial to improving social welfare and building popular support for the economic and political reform process in Kyrgyzstan. New and creative approaches to social service delivery, including an increased private sector role, are one way to prevent further erosion of benefits. Support for social sector restructuring must go hand in hand with broader economic restructuring and privatization objectives.

USAID's focus is on the health and housing sectors. Health is a highly visible area of the social sector which commands considerable public attention. Failure to deal with the current problems in the health sector may weaken confidence in local authority and in the reform process itself. USAID will support efforts to improve the quality and efficiency of health care financing and service delivery. In housing, USAID resources are available for the reorientation of housing policy to a market economy through improved targeting of housing subsidies, increased housing quality and choice for all consumers, and greater availability of affordable housing. The result desired is greater labor mobility for the overall economy through improved freedom and the ability to lease, purchase, and sell housing through the private market.

Activities. USAID training allows key individuals to learn first-hand how a broad range of social sector issues are addressed in the United States. Under the housing sector reform project, USAID is helping develop policies to replace subsidized rent with targeted support for vulnerable renters. USAID is also helping clarify ownership and land rights and to facilitate private investment in urban land development; an effective, market-based system of titling and valuing property is also planned.

Health finance systems will be strengthened by examining alternative options such as insurance schemes, privatization, and better targeting of publicly financed services. An intensive demonstration site for health finance and delivery will be established in the Karakol region. A health partnership with the University of Kansas Medical Center is training Kyrgyz professionals in current medical practices including nursing, modern management, and the operation of private medical practices. USAID is supporting the modernization of two family planning service delivery sites in Bishkek. Future social

sector efforts will include improving the legal and regulatory environment, especially with respect to private medical practice and pharmaceuticals. The Centers for Disease Control and Prevention will be providing technical assistance to the government to improve public health surveillance systems and response to disease outbreak. Technical assistance will be provided to support sustainable childhood immunization services.

Technical, legal and legislative assistance will be provided in the development of progressive energy sector laws and regulations.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the number of local level health care facilities with trained and retrained (U.S.-funded) health care providers increases; (2) the number of private health care practitioners, group practices, and pharmacies increases; (3) the number of facilities with modern clinical procedures and protocol (like those used by American International Health Alliance partnerships) increased; (4) health and clinical information systems are developed at the national and oblast levels for health care planning; and (5) a neutral and independent body to regulate the pharmaceutical industry is created.

Progress 1993-1994. Policy dialogue and technical advice has been provided as part of Kyrgyzstan's wider reform effort, especially in key areas related to health, population, housing and energy. USAID health and housing activities are just getting underway. A national health insurance law was passed, and USAID technical assistance has helped initiate changes in by-laws of the legislation to ensure more effective implementation. USAID has stimulated establishment of six private, multi-specialty medical practices in Kyrgyzstan. As a result of medical partnership collaboration, the Ministry of Health has already increased efficiency and reduced costs by closing down excess hospital beds and reducing length of stay. Partner hospitals have updated a number of medical practices and made improvements in hospital management. USAID, together with the World Health Organization (WHO) and the United Nation's Children Fund, assisted the government to develop a national immunization plan, which includes a revised immunization schedule, and reduced the number of contraindications which had inhibited the rational development of its immunization program. USAID provided training for government officials in the repair and maintenance of cold chain equipment donated by the Japanese government.

Donor Coordination. USAID activity in the social sectors is coordinated with other donors, including the major multilateral lenders. For example, USAID has coordinated closely with the Japanese in strengthening immunization and cold chain capacity. USAID has played a predominant role in establishing the Interagency Immunization Coordinating Committee, which coordinates donor support in immunization delivery and disease control activities in the NIS.

Constraints. Current social support systems in Kyrgyzstan are not sustainable, given the elimination of subsidies from Moscow. Nonetheless, the rhetoric of "cradle to grave" social welfare stemming from the state is difficult to overcome. Top-down, directed development approaches during Soviet rule did not engender efficient management practices across a range of social sectors.

#### **Other Donor Resource Flows.**

According to statistics from the Development Assistance Committee of the Organization for Economic Cooperation and Development, the United States provided about 24% of official development assistance to the Kyrgyz Republic in 1993. Other major donors are the International Development Association of the World Bank, Netherlands, Switzerland, and Japan.

**KYRGYZ REPUBLIC  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 12,000,000
Building Democracy	\$ 2,000,000
Social Structure Restructuring	\$ 3,000,000
Total	\$ 17,000,000

USAID Regional Mission Director: Craig Buck

## LATVIA

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$7,450,000**

The U.S. assistance program to Latvia began shortly after that country regained its independence from the Soviet Union in September 1991. Latvia was one of the most heavily industrialized republics in the former Soviet Union, but development was oriented towards Soviet, not Latvian, economic needs. Over 33% of the population claims Russian origin, since large numbers of Russian workers settled in Latvia throughout the 50-year period of illegal Soviet annexation. In the last 18 months, the economy has turned around, and trade with the West and significant foreign investment, especially from American business, is on the increase. The United States considers the successful political and economic recovery of this region to be among its highest development priorities in Central Europe.

### **The Development Challenge.**

Latvia's transition to a market economy and a democratic polity has been remarkably successful, but challenges that could threaten the completion of the process still remain. Latvia has held fair and democratically-sanctioned presidential and parliamentary (1993) and local (1994) elections. Despite recent changes in the ministerial leadership, government commitment remains firm to economic and legal reform and to combatting rising crime. The political challenges that Latvia faces include building public confidence in macroeconomic policies (especially with regard to agricultural production and marketing), fostering a sound social sector and civil society, and assuaging inter-ethnic tension among its inhabitants.

Latvia was once one of the richest republics in the former Soviet Union, and its gross domestic product (GDP) has remained the fourth highest in Central Europe at \$3,410 per capita (in 1993.) Like most formerly communist countries, it experienced a dramatic decline in GDP during the first years of the transition. However, its economic accomplishments in the past three years have been impressive, including the successful introduction of a fully-convertible national currency, price stabilization, and the adoption of legislation supportive of economic reform. USAID assistance efforts have concentrated on those public and private sector recipients who benefit from liberalization of the business climate such as the banking industry and newly-privatized enterprises.

Challenges to Latvia's continued economic progress include finding new markets for its declining industrial production, the generation of new employment opportunities, and increasing the pace of large-scale industrial privatization. The Government of Latvia has negotiated several trade agreements and is poised to join major international agreements and organizations, such as the World Trade Organization (WTO), the Council of Europe, and the European Community. Latvia will seek to reduce its significant trade deficit, further develop its trade policies, and improve the standard and quality of its exports.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Latvia.

#### **ECONOMIC RESTRUCTURING (\$6,900,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$6,900,000).**

Small- and medium-sized businesses in the service, textiles, and food packaging industries, are among the fastest growing commercial enterprises. Approximately 80% of these former state-owned enterprises have been privatized. As firms adjust to their new roles within the economy, they require inputs such as market-oriented technology, available credit and capital, basic management and

accounting skills. They must develop the ability to apply their resources in an efficient, sustainable manner, and to save and invest profits in a stable business climate.

Activities. To establish the necessary framework for economic development, USAID and the U.S. Department of the Treasury have advised the government and financial institutions, such as the Ministry of Finance and the Bank of Latvia, in macroeconomic and monetary policies, tax policy and administration, budget implementation and commercial banking. USAID is particularly active in advising the Ministry of Finance on drafting budget legislation and budget management, and in advising the Bank of Latvia on bank supervision. As most Latvians do not make use of the traditional banking sector, USAID has initiated a program to develop a cooperative credit union movement in rural and urban areas.

USAID has provided substantial expertise for Latvia's large-scale enterprise privatization program and is working closely with other donors to assist the Latvian Privatization Agency, created in 1994. Our technical assistance to this specialized agency with a national mandate has focused on support of a public (voucher) privatization program for the auction of shares in state-owned enterprises.

Established in late FY 1994, the Baltic-American Enterprise Fund will be fully operational in FY 1995 and will augment U.S. assistance in the financial and private enterprise sectors by providing long-term micro-lending credit programs and sound, equity investment and joint venture opportunities. In collaboration with U.S. Departments of Commerce and Justice, USAID provides technical assistance and training in the areas of trade policy and commercial law. Legal assistance to the Ministry of Foreign Affairs in the preparation of international agreements is hastening the pace of accession to international trade structures. Commercial law assistance reinforces the government's ability to regulate monopolies and foster a competitive environment. To supplement the dearth of Latvian MBA graduates, USAID is funding a university-to-university management training and market economics education program through the Riga Technical University and University of Latvia. The first class of American-style business administration scholars will graduate in 1995. USAID provides assistance in improving energy efficiency and pricing, modernizing the power sector, and promoting regional energy cooperation among the three Baltic republics and neighboring countries. A USAID-initiated utility partnership between Central Vermont Power and the Latvian Electric Company promotes power management and organization and cost-benefit techniques. USAID also promotes regional energy cooperation in two main areas: assisting in the drafting of Latvian bilateral agreements in electricity between Estonia and Lithuania, and establishing a regional forum for the Estonian, Lithuanian, and Latvian national power companies to pursue a regional energy plan and collaborate on parallel operations of their systems.

Indicators. The following is a partial list of provisional indicators measuring progress toward this objective: (1) by the end of FY 1996, 35% of Latvia's adult citizens are participating in securities ownership through the investment of privatization certificates under the public mass privatization program; (2) Latvia will have increased its trade competitiveness by acceding into the General Agreement on Tariffs and Trade (GATT) by end of FY 1996; (3) the Bank of Latvia will have established in FY 1996 a fully operational bank supervision program, including regular bank examination schedules and a procedure by which to revoke banking licenses; and (4) by the end of FY 1996, the national Latvian electric utility will have initiated a demand-side management program.

Progress in 1993-1994. U.S. advisors assisted Bank of Latvia officials in the early design and development of monetary policy; the Bank has since received international praise for the 1993 successful introduction of its own currency. Another key 1993 accomplishment was the U.S. Department of Treasury's advice on the implementation of a major bank restructuring program which enabled the Bank of Latvia to create a two-tiered banking system and privatize over half of its commercial banks. In 1994, U.S. Treasury advisors played a key role in the preparation of a general budget law, which establishes many western aspects of federal budget formation and spending accountability. Also, in 1994, a U.S. Treasury bank supervision advisor, in coordination with the International Monetary Fund (IMF), worked on a long-term basis with the Bank of Latvia to establish

a bank supervision program. The examination of some 20 banks led to the preparation of corrective actions and the suspension of the licenses of several banks which did not meet national standards. With these systems in place, the Bank continues to implement prudent monetary policy and effectively regulate the banking sector. The latter is becoming one of the more dynamic sectors of the economy. As a result, international banks are beginning to show an interest in establishing operations in Latvia.

In the area of privatization assistance, U.S. advisory efforts with the Ministry of Agriculture paid off in 1993 with passage of crucial privatization legislation, and transfer of most dairy processing facilities, meat packing plants and large bakeries to private ownership. In addition, nearly two-thirds of all small businesses were privatized by 1993.

In 1994, two months of on-site assistance by a USAID-funded U.S. Department of Commerce advisor helped yield a trade regime which has placed Latvia in a position to qualify for WTO membership. Assistance in regional energy concerns has led to increased cooperation between the three Baltic republics and the development of a master electricity plan. This last accomplishment was an important feat for countries so dependent on external (sometimes unreliable) sources of power.

Donor Coordination. Privatization has been a multi-donor effort, and the United States has worked closely with the World Bank, French and now German advisors on assisting the agenda of the Latvian Privatization Agency through donor coordination meetings (in-country and abroad) and frequent contractor interaction and reporting.

Constraints. The Baltic republics' progress and their position as privileged transit routes to markets in the former Soviet Union has invited a rising level of economic and organized crime. Corruption, if left unchecked, risks undermining the reform process. In addition, the country's disappointing performance in large-scale privatization will be a major challenge for the still untested Latvian privatization agency.

#### **BUILDING DEMOCRACY (\$350,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$350,000).**

Major pieces of legislation are in place, including laws on election procedures, criminal reform, judicial training, and conflict of interest and ethics in government. United States assistance programs focus on strengthening the public and private institutions necessary to promote a civil society, such as viable local governments and strong nongovernmental organization (NGO) networks related to public policy, environment, and humanitarian needs. Advanced legal reform and improved law enforcement to support the government's fight against economic and organized crime and corruption are also priorities for the Baltics. USAID has established a resident interagency democracy commission to oversee these emerging priorities.

Activities. USAID and the U.S. Information Agency are providing technical assistance and training in the areas of public administration and local government management, and constitutional and civil law reform. USAID's Rule of Law project serves the collective needs of Latvian judges, prosecutors, administrators, and attorneys by convening conferences and discussion groups, supporting professional-in-residence programs, and providing specialized legal library collections. The American Bar Association has supplied resident volunteer liaisons to facilitate activities in the areas of the rule of law and judicial training. USAID is also supporting legal analysis of draft legislation, judicial reform, judicial training, and training of journalists. A long-term advisor conducts on-site training for both Parliament and local political parties throughout Latvia to help build organizational, communication and legislative skills and develop a comprehensive understanding of the new legal system. One responsibility of the democracy commission will be to provide small-grant funding (up to \$24,000) for qualified Latvian organizations or individuals whose work demonstrates progress in democratic

transition initiatives.

**Indicators.** The following is a partial list of indicators measuring progress toward this objective: (1) by the end of FY 1996, the Latvian Parliament will have adopted legislation, and the Government will have instituted regulatory procedures, to ensure appropriate public access to government-controlled information; (2) Parliament will, by the end of FY 1996, be making decisions based on sound, independent policy research and input from nongovernmental organizations; (3) a framework local government budget law and budget equalization measures will have been prepared, reviewed, and adopted by the end of FY 1995; and (4) a civic and economic education curriculum will be designed for use in Latvia's secondary schools and introduced in over 30 schools by FY 1997.

**Progress in 1993-1994.** The completion in mid-1994 of the U.S. House of Representative's Special Task Force on the Development of Parliamentary Institutions in support of Latvia's Parliament represented an important contribution to improving parliamentary research. The one-time donation of approximately \$250,000 in reference materials, computer hardware and software, printers and training by the Task Force was quoted as being equal to approximately half of the annual budget for Latvia's parliament and will provide a lasting service to the country's legislative research needs.

**Donor Coordination.** Currently, there is no significant coordination in this area.

**Constraints.** Presidential and parliamentary elections will be held in October 1995. The resignation of the Prime Minister and his cabinet and the creation of a shadow opposition government in mid-1994 demonstrate that Latvian politics can be unpredictable with respect to implementing reform.

#### **SOCIAL SECTOR RESTRUCTURING (\$200,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$200,000).**

As Latvia's political and economic reforms take hold, the government is beginning to face socially important quality-of-life issues, such as basic health care, humanitarian assistance, pension support, and environmental protection. Latvian official experts have experience in some of these areas but are unfamiliar with others, including environmental protection and accommodation of ethnic minorities. In the period when assistance was initiated, USAID donated pharmaceuticals and medical supplies to respond to humanitarian needs resulting from the lack of supplies from traditional sources. More recently, USAID's focus has been on waste minimization and environmental policy and monitoring. Plans for a limited hospital-to-hospital health partnership are also under consideration.

The environmental program complements economic restructuring by reducing threats to human health and pursues three sub-objectives: (a) support the reform of environmental and economic policies, prices, legislation, and regulations; (b) improve the efficiency and effectiveness of public sector environmental investments; and (c) support the expansion of the role of private sector in environmental conservation.

**Activities.** USAID-funded NGOs implement specially designed waste minimization and industrial pollution prevention activities, in connection with money-saving efficiency programs for selected enterprises throughout the country. Methods for successful efforts are then demonstrated in regional workshops to associations and enterprises wishing to replicate activities on their own. A long-term senior environmental policy advisor will continue and augment our technical and policy assistance to the Ministry of Environmental Protection and Regional Development. The advisor will soon reside in-country to provide routine guidance and training to top Ministry officials. Public sector assistance is also being implemented in cooperation with the U.S. Environmental Protection Agency (EPA) to provide technical assistance and training missions directly to the Ministry. A health care partnership program

will be developed to address critical needs in the health sector.

Indicators. The following is a partial list of provisional indicators measuring progress toward this objective: (1) By the beginning of FY 1996, savings exceed \$400,000, achieved through the introduction of low-cost waste minimization measures at no less than four manufacturing facilities throughout the country; (2) by FY 1996, Government implements water quality program for the Daugavpils region (southeastern Latvia) which will provide for drinking water from a reliable long-term ground source; and (3) appropriate, current medical care practices are introduced and replicated in at least two hospitals by the end of FY 1997 through a U.S. partnership with a Latvian national reference medical facility.

Progress in 1993-1994. In mid-1994, USAID funded a pollution prevention center in Riga as a reference center at the service of Latvian industry on waste minimization and environmental issues. The center will facilitate pollution prevention programs by disseminating information on sound business practices and tapping appropriate nascent indigenous environmental service companies. USAID assistance to the Ministry of Environmental Protection and Regional Development in 1994 included guiding Ministry personnel in the design and execution of complex case studies, such as an analysis of waste water pricing and financing. Provision of specialized computer equipment in 1994 by the EPA to augment a newly established comprehensive national environmental monitoring database was the first step toward applied regional research and protection. The EPA also completed in 1994 its field work for a long-term plan to develop an urban waste and drinking water supply at Daugavpils, Latvia's second largest city. The plan is expected to be completed in 1995.

Donor Coordination. USAID's efforts support those of Sweden, the primary donor of technical assistance in this sector. The Swedish program emphasizes pollution control and sustainable development for the coastal city of Ventspils, improving treatment of organic waste, and development of industrial action plans. U.S. assistance for protection of the environment has included cooperation with the World Bank to provide support for the drafting of environmental action plans. These plans now serve as the framework for country-level discussions on environmental policy.

Constraints. No specific policy or implementation constraints impede United States assistance in the environmental sector. Advisors are working in cooperation with the Ministry of Environmental Protection and Regional Development. A major reform of the health delivery system in Latvia is urgently needed.

#### Other Donor Resource Flows.

According to the Group of 24 statistics, the United States provided about 29% of technical assistance to Latvia. Other major donors are Sweden, Denmark, Germany and Finland.

### LATVIA FY 1996 PROGRAM SUMMARY

USAID Strategic Objectives	
Economic Restructuring	\$6,900,000
Building Democracy	\$ 350,000
Social Sector Restructuring	\$ 200,000
Total	\$7,450,000

USAID Representative: Baudouin F. de Marcken



## LITHUANIA

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$12,689,000**

After 51 years of rule by the Soviet Union, Lithuania regained its independence in September 1991. The United States never recognized the forcible incorporation of Lithuania into the Soviet Union, and is now the largest bilateral donor in the country, playing an active leadership role within the international donor community. Economic assistance has been supported by Lithuania's close ties to the United States and through the large network of Americans of Lithuanian heritage (over 800,000). Despite these ties and generally stable relations with neighboring countries, Lithuania has been slow to attract foreign investment and generate a favorable trade balance. The successful and irreversible economic and democratic transition of Lithuania into the Central European community is an important United States foreign policy objective in the region.

### **The Development Challenge.**

Lithuania is developing less rapidly than its Baltic neighbors, but the government has been working hard to transform its centrally planned economy into a full-fledged market-oriented system. Despite the past political affiliations of government leaders, reforms have been geared to Western models and, in most areas, are proceeding at a satisfactory pace. The Government of Lithuania has also taken a hard line against white collar and organized crime, which has been on the increase. Since the breakup of the former Soviet Union, the Baltics have become important transit countries for smuggling illegal goods in and out of Russia and other New Independent States.

Macroeconomic development in Lithuania is particularly complex, because the country is less industrialized than its Baltic and Central European neighbors. Its agrarian past still influences its economic and trade policies today. The collapse of the Soviet production system has cost jobs in agriculture and food-related industries, depressed incomes and raised food prices. A restructured agribusiness sector could prevent Lithuania from becoming dependent on its neighbors and may present export opportunities. Development of the private sector is critical to the future of the Lithuanian economy. Both public and private sector leadership must strive to resolve the major issues that hinder the next stages of reform after privatization, such as determining asset title and land ownership. Agribusiness is particularly important in Lithuania and therefore requires managers, accountants and marketers trained in modern Western methods.

### **Strategic Objectives (SOs).**

USAID is pursuing the following four strategic objectives in Lithuania.

#### **ECONOMIC RESTRUCTURING (\$9,835,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$9,835,000).**

USAID seeks to improve the business functions of post-privatized enterprises and the financial sector, and places increased emphasis on improving agribusiness by (a) reducing production costs through increased efficiency; (b) stimulating private agribusiness expansion by removing barriers to land privatization and by promoting market-driven pricing and investment promotion; (c) improving institutional support services to agriculture; and (d) improving private sector credit delivery services.

During the time of the Soviet Union, Lithuania was completely dependent on other regions (particularly Russia) for its primary energy supply. This situation remains largely the case today. Although Lithuania now owns the Ignalina Nuclear Power Plant and other electricity supply and distribution plants, the country remains virtually 100% dependent on oil, natural gas and nuclear fuel rods imported

from Russia. This vulnerability was turned to significant advantage by Russia shortly after the Baltics regained independence, namely by controlling the energy supply pipelines. In today's more stable environment, USAID has shifted its assistance from emergency power delivery to improving electric energy efficiency and pricing, modernizing the electricity sector and promoting nuclear safety. The program also supports regional electricity cooperation among the three Baltic republics with the longer term goal of integration into the Nordic and European grids.

Activities. In collaboration with several U.S. departments and agencies, USAID is working with selected firms and businesses and with Lithuanian government ministries in privatization and enterprise development, financial sector legislation and policy reform, and investment and trade. USAID-funded experts have assisted Lithuania's Central Privatization Commission by targeting advice to state-owned firms at key stages of privatization: asset valuation, restructuring of accounting systems, and development of business and legal plans. Recent U.S.-initiated privatization efforts have concentrated on the dairy industry. New and newly privatized enterprises in other commercial sectors receive a wide range of technical assistance, depending on needs and business size. This assistance varies from basic western-style bookkeeping to training in computerized accounting and database systems, implementing budget controls, and providing marketing guidance and training on foreign exchange operations. Other private sector strengthening activities include technical and managerial assistance to a) selected private firms by recent MBA graduate U.S. volunteers on a long-term, one-on-one basis; b) Lithuanian nongovernmental organizations, especially public policy institutions which influence the macro economy; and c) newly established agricultural-based credit unions.

The Baltic-American Enterprise Fund is expected to become fully operational in FY 1995. The \$50 million fund will provide capital to small and medium-sized businesses, primarily through loans and equity investments, in Estonia, Latvia and Lithuania. In collaboration with U.S. Departments of Commerce and Justice, USAID provides technical assistance and training in the areas of trade policy and commercial law, anti-monopoly legislation and competition advocacy, and collateral law and bankruptcy.

Through two major grants with U.S. nongovernmental organizations (NGOs), USAID is providing technical assistance in management, production and marketing to Lithuania's farmers, agribusinesses, and cooperatives. Responding to Lithuanian Government requests, USAID is placing special emphasis on the country's dairy industry by advising on the quality and regulation of milk production, herd range and disease control, and in establishing a milk pricing structure.

USAID energy programs seek to improve the production capacity, financial and personnel management, and power distribution methods of the Lithuanian State Power System. In addition, USAID is collaborating with the Lithuanian State Power System on upgrading plans for a modern energy dispatch center, the construction of which will be proposed for inclusion in a planned World Bank power sector loan. A USAID-initiated utility partnership between Alabama Power Company and the Lithuanian State Power System promotes improved power management and organization, information technical system and cost-benefit techniques. A U.S. government initiative to help improve the safety of the nuclear power plant at Ignalina (which contains the same type of reactor found in the plant at Chernobyl) include the installation of a sophisticated plant analyzer at the Lithuanian Energy Institute to allow for more accurate monitoring exercises. Communication and technical information and research exchanges are promoted among Ignalina, Lithuanian State Power System officials, and other relevant organizations. USAID also promotes regional energy cooperation among the three Baltic States and with Belarus.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) The Baltic countries will develop and use a consistent least-cost system methodology for electricity generation and supply by March 1996; (2) A new collateral law or amendments to the existing mortgage law pertaining to movable property will be drafted and submitted to Parliament by October 1995; (3) commercial banks will meet the Bank of Lithuania's risk weighted

capital-to-assets ratio by mid-1996; and (4) Procedures for accurate and standardized reporting by commercial banks to the Central Bank will be implemented by 1996.

Progress in 1993-1994. The largest benefit of U.S. assistance in the last two years has been achieved in the financial sector. New legislation in tax policy and administration, budget policy, banking and currency stabilization have been promoted successfully by USAID-funded advisors. Specialized managerial training has enabled the head of the Central Bank's bank supervision department to reformulate an innovative strategy for her department. In FY 1993-1994, nine medium and large enterprises were prepared for privatization, representing a significant advance in an area where overall progress has been slow. Assistance in commercial law has enabled judicial and professional legal associations to enhance trade, judicial ethics, and establish the first-ever commercial law center.

USAID-funded U.S. Department of Treasury efforts concentrate on banking and finance. A Treasury expert assisted the Bank of Lithuania for two years, providing guidance on the management of reserves and modernization of banking practices. The Lithuanian Savings Bank received U.S. policy advice on privatization and development issues. Treasury advisors helped the Ministry of Finance formulate tax policy and regulations, design tax training, and develop a national treasury function and cash management system. The Bank of Lithuania receives technical assistance from USAID on bank supervision, including instituting off-site examinations at all licensed banks, and on special issues such as bank fraud cases. USAID participated with other donors in drafting a comprehensive banker training program for Lithuanian commercial banks. These efforts are critical in prompting a sound market-oriented banking sector; for example, initial results catalyzed the decision to create a national bank training center.

The U.S.-Lithuanian utility partnership was created in mid-1994. The two participating companies have exchanged site visits and established design plans to improve the Lithuanian State Power System management structure and foster more efficient use of electricity. Building on the successful implementation of a pilot industrial energy efficiency program, USAID-funded contractors designed an expanded plan for a demand-side electricity management program in Kaunas, Lithuania's second largest city. The U.S. Department of Energy's Brookhaven National Laboratory organized a week-long seminar at Ignalina on the "Safety Aspects of Plant Modification" which was presented by the heads of the nuclear engineering departments of four major U.S. nuclear utilities.

Donor Coordination. USAID technical assistance to bank supervision at the Bank of Lithuania is provided in close collaboration with the World Bank, International Monetary Fund, and the European Union's PHARE program. The development of a unified banker training program represented a substantial combined effort initiated by USAID with the European Union's PHARE Program and British Know-How Fund experts. USAID has also worked closely with the World Bank, the European Union's PHARE program, and other governments on the reform of the electric power sector. Monitoring and safety information regarding Ignalina is regularly exchanged among the Government of Sweden and other cooperating donors.

Constraints. In agriculture, the slow pace of land tenuring remains a concern. Though most private dwellings and agricultural entities have been privatized, well over half of all state-owned enterprises has not yet been sold. The Lithuanian government failed to enact legislation to create a national privatization agency and state property fund, and this failure raises questions as to the government's commitment to complete the second wave of privatization. The nuclear power plant at Ignalina provides the country with an accessible, inexpensive, and more importantly, independent means of power generation. Although the international community is concerned about potential safety hazards, the government is reluctant to close the plant down, and plans to operate it through at least the year 2000.

## **BUILDING DEMOCRACY (\$1,514,000).**

### **SO 2. Support the transparent and accountable governance and the empowerment of citizens through democratic political processes (\$1,514,000).**

USAID plans to focus increased attention on strengthening the network of fledgling, indigenous nongovernmental organizations (NGOs), especially those striving to improve or constructively influence public policy, the environment, economic growth, and the social sector. USAID has established a resident interagency democracy commission to oversee this emerging priority. Another responsibility of the democracy commission will be to provide grant funding of up to \$24,000 to qualified Lithuanian organizations or individuals whose work demonstrates progress in democratic transition. Advanced legal reform (to equal the pace of commercial law reform) and law enforcement to support the government's fight against economic and organized crime and corruption are also priorities in the Baltics.

Activities. USAID has structured a rule of law project to serve the collective needs of Lithuanian judges, prosecutors, and attorneys through conferences, discussion groups, and the provision of specialized legal libraries. To strengthen public and private democratic institutions, USAID assistance is applied to legal analysis of draft legislation and judicial reform and promoting judicial training, training of journalists, parliamentary training, and political party development. A long-term advisor conducts grass-roots training for local political parties throughout Lithuania to help build organizational, communication and legislative skills.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) At least five national political parties will develop distinctive identities focussing on specific platforms; (2) Comprehensive laws and legislation governing not-for-profit organizations will be developed and enacted by December 1995; (3) Implementing regulations for the laws governing not-for-profit organizations will be adopted by June 1996.

Progress in 1993-1994. In mid-1994, the U.S. House of Representative's Special Task Force on the Development of Parliamentary Institutions fulfilled its goal of providing a substantial amount of technical equipment, reference materials and parliamentary training to strengthen the country's legislative research needs during the time of democratic transition.

Donor Coordination. USAID is currently the only donor of consequence in this field, and there is consequently no notable coordination in this area.

Constraints. Popular support for the Lithuanian Government was tested many times in 1994. Correctly or not, the government has been blamed for many of the economic downturns since independence, yet the Government has successfully recaptured public confidence in times of domestic crisis. Local elections will be held March 1995 and could affect the pace of macroeconomic reforms.

## **SOCIAL SECTOR RESTRUCTURING (\$1,340,000).**

### **SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$1,340,000).**

As Lithuania's political and economic reforms take hold, the government is beginning to face quality-of-life issues such as basic health care, humanitarian assistance, pension support, and environmental protection that are important attributes of a developed society. Lithuanian experts have experience in some of these areas, but with others, such as environmental protection, they are completely unfamiliar. When assistance was first initiated, USAID donated pharmaceuticals and medical supplies to respond to humanitarian needs resulting from the lack of supplies from traditional sources. More

recently, USAID's focus has been on waste minimization and environmental policy and planning.

The environmental program complements economic restructuring by reducing health threats through: (a) support for reform of environmental and economic policies, prices, legislation, and regulations; (b) improving the efficiency and effectiveness of public sector environmental management.

Activities. USAID has recently initiated activities in Lithuania under its regional environmental action program to provide advice and training to enterprises that are currently sources of public health hazards, thereby making them significantly more attractive for international investors. USAID-funded NGOs implement specially designed waste minimization, and industrial pollution prevention activities, in connection with money-saving efficiency programs. Successful methods are then demonstrated in regional workshops to associations and enterprises wishing to replicate them. An advisor is providing long-term technical assistance to the Ministry of Environment on national policy issues. With USAID funding, the U.S. Environmental Protection Agency (EPA) provides technical assistance and training directly to the Ministry.

Indicators. The following is a provisional indicator for measuring progress toward this strategic objective: (1) The Baltic countries standardize their environmental monitoring and laboratory analysis procedures by May 1996.

Progress in 1993-1994. Progress in environmental protection occurred through programs in waste minimization and institutional strengthening. Provision of specialized computer equipment in 1994 by the EPA to augment a newly established comprehensive national environmental monitoring database was the first step toward applied regional research and protection. The EPA has also completed field work for a long-term plan to evaluate air quality, emissions, waste water treatment and groundwater contamination of a strategically important oil refinery in the city of Mazeikiai. The overall plan is expected to be completed in 1995.

Donor Coordination. USAID and EPA's monitoring and policy advice to strengthen the Ministry's knowledge base complements work by the European Union's PHARE program in its development of a national environmental strategy, including environmental law. U.S. assistance for protection of the environment has included cooperation with the World Bank to support the drafting of environmental action plans; these plans now serve as a framework for country-level discussions.

Constraints. The full extent of environmental degradation in some areas, especially at sites of former military installations, is not yet known. More international attention is needed to ensure longer-term assistance in this sector.

#### **Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States provided about 27% of technical assistance to Lithuania. Other major donors are Denmark, Sweden, Norway, and the Netherlands.

**LITHUANIA  
FY 1996 PROGRAM SUMMARY**

<b>USAID Strategic Objectives</b>	
<b>Economic Restructuring</b>	<b>\$ 9,835,000</b>
<b>Building Democracy</b>	<b>\$ 1,514,000</b>
<b>Social Sector Restructuring</b>	<b>\$ 1,340,000</b>
<b>Total</b>	<b>\$12,689,000</b>

USAID Representative: John J. Cloutier

**FORMER YUGOSLAV REPUBLIC OF MACEDONIA**

**FY 1996 Assistance to Central and Eastern Europe Request . . . . . \$16,724,000**

The Former Yugoslav Republic of Macedonia (FYROM) the poorest country of the Former Yugoslavia, was the only former Yugoslav republic to gain independence peacefully. Although FYROM declared its independence in 1991, the United States did not officially recognize it until February 8, 1994; full diplomatic relations have not yet been established. The Macedonians have assertively pursued policies to reform the economy and strengthen democratic institutions. However, given its geographic position and the historical enmities of its neighbors, progress has been difficult to achieve. FYROM continues to play a responsible role in trying to avoid and contain the Bosnian conflict while struggling to develop a market economy.

**The Development Challenge.**

FYROM is suffering from many of the same ills as other East European countries going through the transition from a centralized to a market economy and from a socialist to a democratic society. With most of the agricultural land already privately owned and with fewer industrial environmental disasters, FYROM does have certain advantages over its neighbors. However, the country has had to deal with the effects of compliance with the United Nations-mandated sanctions against Serbia, which accounted for 60% of its markets prior to the disintegration of Yugoslavia, and which also served as a conduit to other East, Central and West European markets. Further, the country has had to deal with the effects of the trade embargo imposed by Greece in February 1994, in response to the declared constitutional name (Republic of Macedonia), the use of national symbols, and alleged territorial ambitions. Current government estimates put the cumulative price of the sanctions and Greek blockade at over \$2 billion. These factors have exacerbated the transitional problems and now threaten economic stability. The FYROM government faces the additional challenge of having to create institutions to perform national functions previously performed by the federal government in Belgrade. Lastly, ethnic tensions remain a critical factor in the ability of the government to maintain its integrity and stability.

Despite these numerous obstacles, Macedonians appear to have the natural and human resources and have demonstrated the political will to transform their economy and their political system. In its first year of implementation, the International Monetary Fund (IMF) and World Bank-mandated stabilization program has produced positive effects. Inflation has been brought under control; the annual inflation rate was 1,925% in 1992, fell to 229% in 1993, then to 54% in 1994 (compared to the 70% rate projected by the IMF). With the repayment of the arrears to the World Bank, FYROM can now be considered for access to resources of the international financial institutions (the World Bank, European Bank for Reconstruction and Development, the IMF and the World Bank's International Development Association), and plans to renegotiate repayment terms with other creditors over the next few months.

**Strategic Objectives (SOs).**

USAID is pursuing the following strategic objectives in FYROM.

**ECONOMIC RESTRUCTURING (\$14,574,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$14,574,000).**

**(A) Financial and economic framework.**

Since its independence from Yugoslavia, FYROM has had to create a government structure to deal with

such issues as fiscal policy, monetary policy, public investment planning, budget, taxation and revenues, and bank supervision. Numerous laws have been enacted to address those issues, with draft legislation on public enterprises still pending.

**Activities.** Because the lack of repayment of arrears to the World Bank precluded the provision of technical assistance from the international financial institutions, USAID played an early and critical role in the initial establishment of policies and procedures in the financial area. USAID-funded consultants advised the government on monetary policy, budget, tax policy and administration, bank supervision, and reform of the banking system. USAID is providing a long-term advisor to the Central Bank on bank supervision and has conducted audits and portfolio reviews on two of the four largest commercial banks. Further assistance will focus on the development and implementation of a strategy for rehabilitation of the commercial banks, long-range planning for the Bank Rehabilitation Agency, and assistance to the commercial banks in restructuring and privatization. In addition, USAID will be providing technical assistance in tax collection and administration and in the area of regulatory reform. Using Support for East European Democracy (SEED) Act funding, the U.S. Customs Service has worked with Macedonian customs officials to improve border control operations.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) private sector compliance with tax laws is increased from current 20% level to 80% level over the next three years; (2) value added tax (VAT) system is designed and legislation approved by January 1996 for implementation in 1997; (3) systems developed for obtaining and disseminating international market information on agricultural and industrial supply, demand and prices; (4) privatization of five viable commercial banks by the summer of 1996; and (5) approval and implementation of legislation and supporting regulations for operation of commercial banks.

**Progress in 1993-1994.** In compliance with the stabilization program, FYROM has implemented a number of fiscal reforms: tightening the money supply, increasing foreign currency reserves, reducing inflation (to under 2% per month), removing most government subsidies and price controls, and enacting major new tax laws. Structural reform, however, has moved at a much slower pace, especially in the areas of banking reform and privatization. Government revenues are lower than anticipated, due to poor compliance with the new tax laws, especially in the private sector, which is currently producing 80% of business profits but paying only 20% of the taxes. Following an initial program of assistance in a broad range of financial sector activities, USAID has focused its efforts on banking reform and tax administration. New laws on taxation (sales, inheritance, customs, personal income, corporate profit, and property), passed in January 1994, reflected recommendations made by USAID advisors. Technical assistance to the Central Bank resulted in a decision by the bank to focus resources on bank supervision responsibilities. USAID-funded contractors completed audits of two major banks, as part of a World Bank effort to strengthen the banking sector. U.S. assistance helped to alleviate export and import barriers, by improving facilities and customs capabilities at the borders.

**Donor Coordination.** As part of the World Bank and IMF-mandated stabilization program, the FYROM government was required to develop and implement a variety of economic and financial reforms. A condition to the World Bank economic recovery loan was completion of audits and portfolio evaluations of the four largest banks. USAID financed the reviews of two of the four banks. The IMF and USAID are also working closely together in providing resident advisors for bank supervision.

**Constraints.** The Serbian sanctions and the Greek blockade pose serious obstacles to FYROM's economic recovery by blocking access to major traditional trading partners. Inability of the international community to provide relief for FYROM's balance-of-payments gap has hampered the country's access to credits from the international financial institutions.

#### (B) Privatization.

Privatization in FYROM began in 1989 with the passage of a privatization law by the former Yugoslav



parliament. A new privatization law was introduced in December 1991, following independence, but wasn't enacted by parliament until August 1993. Thus, FYROM has gotten a slower start than many neighboring states. FYROM's approach to privatization differs significantly from other Eastern European privatization laws in two key respects: FYROM has chosen a managed, self-privatization process instead of mass privatization through vouchers, and a minimum of 51% ownership must be purchased by a single entity, to clearly establish management responsibility for the privatized company. The Privatization Agency reviews and approves all privatization plans, negotiates final sales, and is responsible for sales of shares for companies only partially privatized through an auction process.

**Activities.** USAID is focusing on the acceleration of the privatization process itself, development of private sector capacities, and creation of an enabling environment for private business. USAID is providing a team of advisors to assist the Privatization Agency in the accelerated privatization of social enterprises; development of corporate management plans for those companies in which the Agency ends up as the majority shareholder; the preparation of appropriate contracts and instruments for sales of social enterprises; the development of regulations affecting strategic enterprises following their privatization; and development of legal procedures to handle bankruptcy and liquidation of assets of companies deemed to be unsalvageable. USAID will support small businesses in developing basic management skills and will provide a small and micro-lending program.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) privatization of 12 socially owned enterprises through foreign investment by mid-1995; (2) identification of key barriers to foreign investment and enactment of legislation to remove them; (3) development of information materials for potential foreign investors by mid-1995; and (4) thirty percent reduction in the number of socially owned companies remaining in state hands by the end of 1995.

**Progress in 1993-1994.** Moving cautiously in an area with a high potential for social disruption, FYROM initiated its privatization process with the development of a methodology for valuation of the targeted socially owned enterprises, with input from USAID-funded advisors. The Privatization Agency then provided training to private sector valuers, who were licensed to provide valuation services to companies developing privatization plans. To date, 74 companies have been privatized; the World Bank program calls for another 400 to be privatized by mid-1995. In addition, around 50,000 new private businesses have been licensed, most in the trade sector. USAID participated with the World Bank in a special review of the 25 social enterprises which are the largest loss-makers. This study resulted in recommendations to the government on the restructuring of the five largest socially owned enterprises. The special restructuring program adopted by the Parliament reflects the recommendations made, and provides World Bank support for their implementation. A major obstacle to restructuring, lack of access to credit, is being addressed through World Bank credits to commercial banks and through a USAID program for micro-lending.

**Donor Coordination.** The World Bank and USAID are working very closely in coordinating both privatization and social sector reform efforts for FYROM. Both the World Bank and USAID worked on a special review of the 25 loss leaders. The World Bank will provide additional assistance to these loss leaders to help them implement cost-cutting action plans.

**Constraints.** Lack of interest by potential foreign investors due to (1) uncertain economic conditions; (2) lack of financial structures; and (3) uncertain regulatory environment are major constraints to privatization. Delays in closure on the IMF standby agreement and related delays in access to international credit inhibit commercial lender interest in investment.

#### (C) Agricultural sector restructuring.

Although industry accounts for 43% of the gross domestic product (GDP), FYROM is primarily an agricultural society. Unlike many other East European countries, FYROM is already largely private in

agriculture, with 85% of the land in private hands and 90% of the production private. Historically, the largest market for the country's agricultural products has been the Former Yugoslavia and, through Yugoslavia, Central and Western Europe. The Serbian sanctions now prohibit trade with neighboring Serbia. FYROM must find new markets.

**Activities.** USAID activities focus on the agricultural sector both at the grassroots level and at the national level, ensuring the existence of a technical and economic infrastructure which will support the activities of individual farmers and cooperatives. Specifically, USAID will complete a land survey to identify land markets, ownership issues, land and inheritance taxes, and the extent of land fragmentation; establish an agricultural policy capability at the Ministry of Agriculture, to assess the economic implications of agricultural subsidies, public investments in agriculture, price policies, and enhanced competition and efficiency; compilation of agricultural census data collected during the 1994 census; and development of rural credit institutions to provide access to capital for investments in the rural areas. USAID soon will begin a pilot program in livestock production which will serve as a model for other sectors of agriculture. USAID also will continue technical assistance to individual farmers and farmer groups, on ways to improve production, processing, packaging and marketing of their agricultural products.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) land registration system completed by the end of 1996; (2) USAID-assisted agribusinesses increase their market share by 30% by the end of 1996; (3) credit mechanisms established to provide access to credit for rural populations, to be self-sustaining within four years; and (4) increases in the quantity and quality of milk and cheese produced from sheep, packaged for sale in Western markets.

**Progress in 1993-1994.** The agricultural sector in FYROM has been buffeted by the closures of its borders to the north and south, as well as by a seven-year drought. Lacking adequate market information on international supply and demand, Macedonian farmers have been unable to adjust production to market needs, resulting in surpluses in some products and shortages in others. The high degree of land fragmentation and the lack of a privatization law for agricultural land have inhibited adoption of more efficient agricultural technologies. While many agricultural subsidies have been eliminated, lack of access to markets, inexperience in developing new markets, and lack of access to credit have prevented most farmers from responding to normal market incentives. Recognizing the importance of agriculture in the Macedonian economy, USAID financed over 65 volunteers to work with private producers, cooperatives, and the government to improve food storage and processing capabilities and open new markets. The volunteers' work provided valuable input into the design of USAID's longer term agricultural programs, which begins in the spring of 1995.

**Donor Coordination.** The USAID assistance program is closely coordinated with a planned \$23 million World Bank agricultural sector program.

**Constraints.** Increased transportation costs associated with United Nations sanctions against Serbia and the Greek embargo have raised the prices of Macedonian agricultural products to uncompetitive levels. European Union (EU) protective measures in agriculture have inhibited access to EU markets.

## **BUILDING DEMOCRACY (\$1,150,000).**

### **SO 2. Promote the peaceful transition to a democratic society (\$1,150,000).**

While Macedonians moved peacefully to a democratic system, much work needs to be done. Currently, political parties are organized along ethnic lines. By most estimates it will take five to ten years to evolve to a more interest-based political system. There is also a real need for better understanding on the part of the general populace, and of their representatives, of their rights and responsibilities. Key legislation (on human rights and ethnic relations, local government, commercial

law, etc.) has yet to be enacted. The current government, formed following elections in October 1994, will address most of these issues over the next 12 months.

Activities. USAID assistance addresses the broad spectrum of activities associated with democratization, including: laws, citizen and community responsibilities, the election process, the role of the legislative and executive branches of the government vis-a-vis the citizens, and the role of the media as the watchdogs of democracy. In the area of citizen participation, USAID will provide technical assistance to communities in the development of civic and nongovernmental organizations (NGOs) aimed at dealing with problems of common interest to all or part of the populace. USAID will also assist government officials in being more responsive to citizen concerns through improved public administration. In the area of the media, USAID will provide training in the role of media in a democratic society. Finally, assistance will focus on improving election processes and strengthening political parties.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) establishment of independent television and radio stations providing community service and news programs; (2) local elections are completed and deemed free and fair by official observers; (3) a law on local government is passed by the end of 1995; and (4) the number of registered indigenous NGOs increases by 50% by mid-1996.

Progress in 1993-1994. FYROM now has over 200 independent radio and television stations, although most are still heavily focussed on entertainment, with little public-interest broadcasting. Newspapers are published in most of the minority languages, with the Albanian paper having recently moved from biweekly to daily publication. There are approximately 30 registered NGOs, most involved in humanitarian activities. International and domestic observers judged the recent elections to have been reasonably fair and open. To strengthen democratic institutions, USAID and the U.S. Information Agency (USIA) advised political parties on campaign techniques and financing, in preparation for the October 1994 elections. They also conducted an assessment of current and proposed election procedures, and made recommendations for changes in legislation to remove inconsistencies. Such recommendations were incorporated in the draft legislation presented by the government to the parliament. Toward the end of the year, SEED funding was approved for community-based activities centering on education and the development of parent and teacher associations in ethnically diverse villages, on institutional capacity-building among indigenous women's organizations, and for a project building institutional capacity among indigenous NGOs working in the area of environmental protection.

Donor Coordination. USAID has coordinated activities with other NGOs working in the region, such as Dutch Interchurch Aid, the SOROS Foundation, and Search for Common Ground.

Constraints. The threat of a spillover of ethnic tensions from the north (Bosnia/Serbia) exacerbates ethnic tensions between Albanian and Macedonian nationalities in FYROM.

#### **HUMANITARIAN/SOCIAL SECTOR RESTRUCTURING (\$1,000,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to a market economy while minimizing the social impacts (\$1,000,000).**

As the privatization process moves forward, one inevitable result will be the reduction in employment levels in privatized companies, as new owners focus on profitability. The current economic situation, driven by loss of markets to the north and south, has already resulted in a reduction in the employed population from 560,000 three years ago to 397,000 today. Further, it is estimated that at least a fourth of those employed are on "technical leave" (not working but receiving 70%-80% of pay). Currently 180,000 also are registered as unemployed. Although the privatization law calls for 15% of sales payments to be allocated to social support systems, the pace of privatization is not generating sufficient funds to provide any significant level of relief. While the systems for administering social

support programs are well organized and fairly efficient, the rapid increase in demands on the system threatens the ability of the system to respond. The potential for social and political destabilization are a real concern.

**Activities.** In the area of social assurance programs, USAID will address welfare and pension system reforms in support of the World Bank's program. In the humanitarian area, USAID financed a team of biomedical specialists who conducted a survey of medical equipment throughout FYROM. These results were shared with other donor organizations to assist in targeting assistance to the highest priority equipment needs. As a follow-on to this assessment, USAID is funding a second team of specialists to identify parts needed for repair of broken equipment, to train local technicians in repair and maintenance techniques, and to establish an in-country inventory of critical spare parts.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the law on welfare is revised to equalize payments among categories of welfare recipients; (2) outreach program increases coverage of eligible welfare recipients to 90%; (3) actuarial data is developed to provide a basis for pension fund projections; and (4) pension fund computations are revised to reflect actuarial data.

**Progress in 1993-1994.** In connection with the IMF's systemic transformation facility (STF) and the World Bank's economic recovery loan, FYROM was required to implement a number of reforms in its social assurance programs: increases in percentages of salaries withheld for social benefits (health, pension, unemployment), raising of the eligibility age for pensions, and reform of several labor laws, for example. The enterprise and financial sector adjustment loan now being negotiated with the World Bank will entail further reforms in the social assurance programs, as preconditions to issuance of critically needed credits. USAID assistance programs are targeted at helping FYROM comply with these conditions. To date, USAID-financed consultants have conducted an assessment of the social assurance programs, and have made initial recommendations on changes needed to current laws.

**Donor Coordination.** The World Bank and USAID are working closely in coordinating the social sector reform efforts for FYROM, with the Bank targeting health and employment, while USAID targets pensions and welfare.

**Constraints.** While the demand for social support systems is rising, the current economic deterioration is reducing government revenues and therefore eroding the budget base for these social programs.

**Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States provided about 49% of technical assistance to FYR Macedonia. Other major donors are Germany and Australia

**FORMER YUGOSLAV REPUBLIC OF MACEDONIA  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 14,574,000
Democracy Building	\$ 1,150,000
Social Sector Restructuring	\$ 1,000,000
TOTAL	\$ 16,724,000

USAID Representative: Linda Gregory

## MOLDOVA

**FY 1996 Assistance to the NIS Request: . . . . . \$ 30,000,000**

Despite significant obstacles, the Government of Moldova is moving ahead with economic and political reform. There has been progress on macro-stabilization: prices have been freed, inflation has been reduced substantially, and privatization is proceeding. On the political front, generally free and fair parliamentary elections were held in February 1994 and civic and other types of non-state organizations are multiplying. The Moldovan government is also taking steps to eliminate regional ethnic tensions in Trans-Dniester through peaceful, constitutional mechanisms. Continued assistance from the United States and other donors is essential if Moldova is to accelerate its transition to a market-oriented democracy.

### **The Development Challenge.**

With a well educated populace (5.5 million), a high level of social development and a national government demonstrably committed to reform, Moldova is well positioned to make the transition to a democratic, free-market society. The introduction of a new currency, the leu, together with prudent fiscal and monetary policies, has sharply cut inflation from 21% per month in 1993 to under 2% in 1994 and reduced the public debt to about 8% of gross domestic product (GDP). Private ownership of homes and apartments has risen to over 70%, though privatizing apartments in large housing complexes has presented new problems in managing communal areas and services. Steps to cut import tariffs and government subsidies are spawning efficient and competitive enterprises.

Despite these advances, Moldova still faces formidable challenges. Per capita GDP has fallen dramatically since 1991. The economy is almost completely dependent on imported energy. Restructuring of the agricultural sector, the key to Moldova's future growth, has been uneven. Trade with other New Independent States (NIS) has also dropped sharply as consumer demand for Moldovan exports tumbled due to flagging economic conditions in traditional trading partners Russia and Ukraine. Official unemployment while still relatively low is increasing and up to a third of all wages remain unpaid. Natural disasters including floods, droughts, wind storms and earthquakes have further drained scarce resources.

Through its financial and technical assistance the United States is working with Moldovan officials and pro-reform constituencies to realize the goal of an economically prosperous and democratic nation. Creating a favorable climate for private investment, restructuring the agricultural sector to stimulate agribusiness exports, and strengthening democratic institutions and processes are key aims. It would be very difficult for the government and people of Moldova to stay the reform course without U.S. and other foreign assistance.

### **Strategic Objectives (SOs).**

USAID programs in Moldova support the following strategic objectives.

#### **ECONOMIC RESTRUCTURING (\$27,000,000).**

**SO 1. Foster the development of a competitive, market-oriented economy in which the majority of resources are privately owned and managed (\$27,000,000).**

(A) Privatization and business development.

Promoting the transition to a market economy is the top priority of U.S. assistance to Moldova. Training and technical assistance is geared to stimulating individual entrepreneurship and facilitating privatization. Reform of the country's largely state-controlled and owned agribusiness industry is

extremely important. Many of the larger farms are in the process of transforming into joint stock companies or cooperatives. Increasing agricultural exports is integral to sustained economic growth. Businesses must reorient from numerical targets to technology improvement, product quality, profitability and marketing, including cultivating new markets.

**Activities.** USAID began its privatization program in 1994 and will continue to provide strong support in FY 1995 and FY 1996. Specific elements of USAID's economic restructuring program include: (1) Mass privatizations under the National Patrimony Bond system, established in 1994; (2) Establishment of a securities market regulatory body and capital market infrastructure; (3) Training Moldovan nationals and providing information systems to assist the ongoing privatization effort, improve corporate management and support restructuring; (4) Assisting private farmers and farmer associations to improve farm management methods and marketing at the local level; assisting small agribusiness enterprises to improve processing, packaging, and management and to identify joint ventures; and assisting state and collective farms to privatize; and (5) Training professors of agriculture from the Agrarian State University in market-based agribusiness. New activities to start in 1995 include: promoting equity investments in private businesses and stimulating lending to small businesses through the West NIS Enterprise Fund; opening up regional business support centers; and assisting in housing privatization and private maintenance and management.

To support new commitment to reform, USAID will provide funds in FY 1996 for structural reform support to enable the United States to support, on short notice, the efforts of countries embarking on programs of comprehensive economic restructuring. USAID-funded assistance will likely take the form of commodities, commodity transport, and trade or investment credits that can be counted toward filling balance-of-payments gaps as these new reformers come to terms with the International Monetary Fund (IMF) or World Bank on structural adjustment loans. U.S. contributions to this process are critical in influencing other bilateral donors to participate and can greatly influence the commitment of NIS republics to embark on comprehensive economic reform. Moldova is among the countries most likely to qualify for these funds.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) privatization of 1,500 enterprises by the end of the government's 1995-96 program; (2) increased percentage of agricultural land in private hands; (3) two functioning regional business support centers by the end of 1995; and (4) expanding linkages between Moldovan agribusinesses and Western firms.

**Progress in 1993-1994.** With USAID support, the Ministry of Privatization completed a successful pilot project in July 1994 and then launched the mass privatization program. Specific elements of the program include: (1) educating the public on the national patrimony bond auction process and on shareholder rights and responsibilities; (2) distributing national patrimony bonds; (3) developing the regulatory structure for the program and procedures for auctioning medium and large enterprises; (4) holding a closed bid auction of 253 medium and large enterprises and an open-cry auction of 88 small enterprises since July 1994; (5) completing 40 technical assistance and training missions for agribusinesses and farmers associations; and (6) facilitating linkages between Moldovan agribusinesses and 13 U.S. and other foreign companies.

**Donor Coordination.** In addition to U.S. assistance, the World Bank has signed a structural adjustment loan of \$60 million to support privatization, creation of a competitive economic environment, and balance-of-payments support and is proposing a further loan to promote private sector development. The United Kingdom has provided complementary technical assistance on privatization. In business development, USAID is cooperating with the European Union and the World Bank, complementing their Chisinau-based efforts with proposed regional centers.

**Constraints.** Potential risks to the privatization program include divisions within the Moldovan government over the speed and scope of reform and inadequate expertise to administer the program.

Another constraint is insufficient balance-of-payments support which could reduce output and fan inflation, thereby eroding living standards and popular backing for economic restructuring. These risks can be minimized with carefully targeted technical assistance, balance-of-payments support, and political support for the reform majority in the Moldovan parliament.

(B) Capital markets and financial sector development.

A viable private enterprise system requires market-based decision making. The key mechanism is a public stock exchange and freely tradeable shares in privatized enterprises. Other important elements are the creation of public policy analysis units within the government and training centers for commercial bank officials.

Activities. With USAID support, the Moldova Stock Exchange will plan all aspects of securities trading: hardware procurement, software implementation, legislation, trading rules, clearing and settlement systems and expanded training programs on customer service and credit issues.

Indicators. The following is partial list of provisional indicators measuring progress toward this strategic objective: (1) market regulations and a functioning securities exchange commission will be in place by August 1995 and (2) improved commercial banking practices and strengthened international correspondent bank relationships.

Progress in 1993-1994. Pilot share registries have been established at three recently privatized enterprises. A capital markets monitoring unit was established to provide market surveillance and analysis for the government and training and technical support to the investment fund and trust company industry. An examination manual has been prepared, and five investment funds are being selected for examination. Training classes are being conducted on enterprise management, the investment industry, and corporate governance practices. In November 1994, the State Commission of Securities Markets passed comprehensive regulations concerning the safekeeping and confidentiality of records, share transfer procedures, independent registrars, and shareholder reporting. More than 250 employees from commercial banks, the Ministry of Finance, and the National Bank of Moldova have already received training.

Donor Coordination. There has been close coordination, particularly with the IMF and the U.S. Treasury. The World Bank and IMF have provided rehabilitation loans, two drawings from the Systemic Transformation Facility, and one Stand-by Arrangement, all of which have supported financial sector reform. The U.S. Treasury is providing advice on government securities and budget. The United Kingdom has provided support to the banking industry, while the European Union, Germany and France have provided technical assistance and training.

Constraints. The lack of sufficient technical expertise is a constraint on future reform. In addition, while the Government of Moldova's commitment to economic restructuring is currently strong, it could wane if the transition to a market system brings widespread and sustained hardship.

(C) Energy and environment.

With the exception of modest hydroelectric generation, Moldova depends on imported fuels for all its energy requirements. State-owned energy enterprises no longer have trade agreements to obtain enough fuel to meet the country's needs. Without assistance to secure energy resources, Moldova's fledgling private industrial and agribusiness enterprises will be unable to operate, causing severe disruptions in the economic, social and political spheres. Stabilizing energy supplies, in part through greater efficiency and conservation measures, is crucial to the success of the entire reform effort. As the most densely populated of the former Soviet republics, Moldova has been particularly affected by the Soviet legacy of environmental mismanagement. Degradation of soil, air and water threatens the all-important agricultural sector and potential poses acute social and health problems.

**Activities.** USAID is helping to establish energy efficiency standards and to promote restructuring of Moldova's energy enterprises. This includes the Chisinau 2 power plant's combustion efficiency program, gas industry rehabilitation, demonstration projects on energy plant efficiency and demand-side management. USAID also is supporting a partnership between a U.S. and Moldovan power utility. USAID will provide assistance to the Moldovan legislature to establish or strengthen existing environmental laws and regulatory bodies. Another demonstration project involving a large farm will demonstrate sound agricultural practices to the agribusiness community. Moldova's present waste and water treatment facilities will be analyzed to determine what assistance, if any, USAID can provide to upgrade the system.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) conclusion of international agreements to ensure uninterrupted supplies of energy resources; (2) establishment of energy-efficient power utilities and distribution system to reduce import dependence; (3) promulgation of strong environmental laws and creation of effective regulatory bodies; (4) heightened environmental and conservation awareness; and (4) upgrading of the existing water quality and supply system.

**Progress in 1993-1994.** A USAID-funded environmental health specialist helped to determine current environmental health risk-assessment skills and to prioritize environmental management needs. An evaluation of Moldovan environmental agencies was done in order to identify those with which USAID contractors will work.

**Donor Coordination.** The World Bank, United Nations Development Program, and the Commission of the European Union Technical Assistance to the Commonwealth of Independent States (EU/TACIS) program are providing funds for energy and environmental projects. The United Kingdom, Netherlands, and France are providing technical assistance. Russia has pledged 90 billion rubles' worth of fuel credits.

**Constraints.** Potential risks include a Russian hold on energy credits, continued natural disasters, and difficulties in the administration of restructured power utilities and environmental regulations.

## **BUILDING DEMOCRACY (\$1,500,000).**

### **SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$1,500,000).**

Continued democracy in Moldova will require an impartial and efficient electoral administration system and a country that is governed in accordance with an impartial legal system. Under communism, the legal system, including institutions, legislation and education all languished. Citizens need to be empowered to participate in public policy decision making through the electoral process, political parties, and non-governmental and civic organizations.

**Activities.** In the political sphere, the International Foundation for Electoral Systems (IFES) is working toward three program goals in Moldova: (1) impartial and efficient election administration through professional and independent election commissions that abide by democratically-determined electoral law; (2) public understanding of, confidence and participation in Moldova's electoral system; and (3) increased capacity of independent institutions, such as parliament, the courts and nongovernmental organizations (NGOs) to support democratic electoral processes. On Moldova's legal system, the American Bar Association's Central and Eastern Europe Legal Initiative operates in Moldova, providing comments on draft legislation, assistance in organizing associations of legal professionals, and assistance in organizing legal education and training. In the area of citizen participation, Counterpart operates an NGO center to provide technical assistance, training, seed grants and material (from decommissioned U.S. military bases) to Moldovan NGOs. USAID is also training Moldovans in the United States in such areas as: functions and administration of a treasury, tax system and federal



reserve system; development of capital markets; administration of trade and World Trade Organization obligations; and drafting legislation.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) modification of the electoral code, including regulations governing constituency delimitation; (2) increased uniformity of election procedures at all levels, including improved ballot security practices and mechanisms for adjudication of grievances; (3) creation of a Moldovan bar association, operating under legislation giving it authority to organize the legal profession; (4) law school curriculum revised and instructors retrained to present new material by 1996; (5) judiciary training revised by December 1996 resulting in improved competency of staff; and (6) increased number of local NGO staff trained in financial and organizational management.

**Progress in 1993-1994.** The Moldovan parliament is considering a draft law on election of local authorities. A voter education working group composed of former Central Election Commission members, advisors and representatives of legal and educational institutions was formed. A legal administration reform working group composed of experts in local administration and of the national government has been formed. Moldova adopted a reformed parliamentary election law in the fall of 1993. Election observers, both foreign and Moldovan, were trained. Voter education spots for both radio and TV were produced for the 1994 elections. Draft legislation to permit a Bar Association has been introduced in parliament. Continuing legal education classes have been held. Topics covered have included law practice management and organizing a local bar association. An NGO services center opened in Moldova in 1994 and is gathering information of NGOs and holding training sessions. Over 50 Moldovans have now been trained in the United States.

**Donor Coordination.** Other donors have sent election observers and receive some assistance from IFES. There are no major rule-of-law activities being implemented by other donors. The World Bank, IMF, and Japan's Former Soviet Union Fund have provided complementary financial support for Moldova's legal, tax, and administrative reform initiatives. The UN, Germany, and France have provided additional technical assistance.

**Constraints.** While the Government of Moldova remains committed to reform, opposition both within the government and among the electorate, economic hardship (e.g. unemployment; declining real wages), and ongoing ethnic tensions limit policymakers' room to maneuver.

## **SOCIAL SECTOR RESTRUCTURING (\$1,500,000).**

**SO 3. Strengthen Moldova's capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$1,500,000).**

Moldova has recently suffered through ethnic conflict and natural disasters that required substantial humanitarian assistance in the form of medical supplies, construction materials to rebuild homes, and food. The country is also in the midst of restructuring its national health care system, including its childhood vaccination program.

**Activities.** Partnerships between Moldovan and U.S. hospitals will provide technical assistance, exchanges and training visits to the United States focusing on trauma care, dialysis, cardiac surgery, medical education, and hospital management. USAID will assist the parliament and the Ministry of Health in health care system restructuring. USAID's BASICS Project will provide follow-on technical assistance and continue to work with the Moldovan government to develop a self-sustaining immunization program. Continued training and technical assistance for women's health and family planning activities will be provided. At the request of the Ministry of Health additional technical assistance is planned to help draft new health insurance legislation. The United States declared an emergency following floods and wind storms in Moldova and provided a \$25,000 disaster assistance

grant to the Moldovan government's Disaster Relief Commission. Additional humanitarian assistance may be required to deal with future emergencies.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) three participant institutions (the Republican Clinical Hospital, the Medical University of Moldova and the City Ambulance Center) establish in-house training and continuing education programs; (2) development and implementation of a national diphtheria control strategy; and (3) development of a national immunization plan for vaccine-preventable diseases.

Progress in 1993-1994. Hospital partnerships were signed between Hennepin County Medical Center (Minnesota) and the Republican Clinical Hospital, City Ambulance Center, and Medical University in Chisinau in January 1993. Moldovan representatives participated in an international conference in St. Petersburg on health care reform. An assessment of the vaccine system in Moldova was conducted in April 1993. Since mid-1993, through the U.S.-Japan Immunization Initiative, USAID has provided technical assistance and some commodities to assist the Moldovan government in developing an effective and efficient child immunization program.

Humanitarian assistance included the following: Operation Provide Hope consisting of 500 metric tons of food and medical supplies valued at \$5 million; U.S. private sector donations of over 300 tons of medical supplies, food, and clothing worth \$6 million; a medical assistance initiative consisting of 20 tons of medicines and supplies worth \$3.1 million; and Defense Department excess medical supplies worth just over \$8 million.

Donor Coordination. In addition to the U.S.-Japan Immunization Initiative noted above, the Government of Japan will be providing \$500,000 worth of primary childhood vaccines in 1995. USAID has played the pivotal role in establishing the Interagency Immunization Coordinating Committee, which coordinates donor support in this area, including a diphtheria control strategy in the NIS.

Constraints. A reignited conflict in Trans-Dniester would pose serious humanitarian problems and demand additional resources. Continued support for the peaceful resolution of the Trans-Dniester tensions through the Organization for Security and Cooperation in Europe (OSCE) and the withdrawal of Russian troops from the region mitigates other risks. The World Health Organization and the United Nations Children's Fund estimate that approximately nine million adult diphtheria vaccine doses are needed to stem the epidemic in 1995; so far no donor has committed to provide the vaccine.

#### **Other Donor Resource Flows.**

No statistics on Moldova are available from the Group of 24 or the Development Assistance Committee of the Organization for Economic Cooperation and Development.

**MOLDOVA  
FY 1996 PROGRAM SUMMARY**

<b>USAID Strategic Objectives</b>	
<b>Economic Restructuring</b>	<b>\$ 27,000,000</b>
<b>Building Democracy</b>	<b>\$ 1,500,000</b>
<b>Social Structure Restructuring</b>	<b>\$ 1,500,000</b>
<b>Total</b>	<b>\$ 30,000,000</b>

Regional Mission Director: Gregory Huger

## POLAND

**FY 1996 Assistance to Central and Eastern Europe: . . . . . \$65,425,000**

Poland's size, central location, and history make its success in introducing a market-oriented democracy vital to United States policy in the region. Not only is its population of 40 million larger than that of the Czech Republic, Slovakia, Hungary and Bulgaria combined, but it was also the first country in Central and Eastern Europe to begin the struggle against its communist past and the first to come out of its post-communist recession. The fact that it has come so far economically with democracy intact makes it a crucial example to the region. Poland's achievements matter well beyond Poland; they will influence stability and hope in the entire region as a whole. Poland is succeeding in the transformation process; it is critical for the United States to continue supporting this transformation until Poland's success is irreversible in all important aspects.

Over the last three years, Poland has also become more important to the U.S. economy as import markets have opened for almost all goods. U.S. trade with Poland has increased to the point that the U.S. Government has named Poland as one of the top ten "Big Emerging Markets" in the world for U.S. exports. This indicates that the U.S. Government will continue to assist U.S. companies to target these markets with aggressive export strategies. Continued economic reform and political stability in Poland will allow the U.S. to increase its activities in the area of trade and investment.

### **The Development Challenge.**

Poland's success in economic and political reform have far from eliminated all developmental issues. While macroeconomic stability has been impressive by regional standards and the Polish gross domestic product (GDP) has grown for three consecutive years, some structural reforms still need to be deepened and broadened and the potentially destabilizing social sector requires priority attention. Among the key challenges remaining are the acceleration of the mass privatization program and of its translation into fundamental restructuring of large enterprises. Structural reform of the banking sector also needs to catch up with the pace of reform in other sectors. Furthermore, Poland's fiscal gains could be threatened by the potential growth of social sector transfer payments which are linked to outdated, inefficient, and non-market compatible policies and institutions. All in all, however, while the balance sheet on the transformation process has both debits and credits, Poland is very much on the right track. With targeted assistance, the U.S. Government can support Poland's transformation towards a full democracy and a functioning free market.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Poland.

#### **ECONOMIC RESTRUCTURING (\$36,025,000).**

**SO 1. Foster the emergence of a competitive, market oriented economy in which the majority of economic resources are privately owned and managed (\$36,025,000).**

Supporting private sector development through assisting entrepreneurs, helping to accelerate the pace of privatization and restructuring, and removing barriers to improving the business climate continue to be of the highest priority in the U.S. assistance program for Poland.

Attention to regions of Poland outside the main pockets of growth will be increased. USAID will provide assistance to private enterprises through U.S. nongovernmental organizations (NGOs) or volunteer organizations, which provide high quality technical and managerial expertise at reduced cost.

Activities. Efforts to promote and accelerate the pace of privatization will include: (1) assisting the

development of financial mechanisms to support the privatization of large numbers of Poland's state-owned enterprises; (2) assisting the Ministry of Privatization and other institutions (national, regional, and urban) responsible for promoting the privatization process; (3) assisting the Warsaw Stock Exchange with a separate central clearance and settlement facility to serve the mass privatization program; (4) training government officials, workers' councils, trade unions and company management about the long-term benefits of privatization; (5) assisting the development of a legal and regulatory framework and practices conducive to the growth and maintenance of newly privatized companies; (6) ensuring that long-term environmental considerations are integrated into the privatization process and that firms meet international environmental standards; and (7) developing a domestic corporate finance capability in selected Polish financial institutions.

To support entrepreneurs and the private sector, USAID will: (1) provide capital investments and loans to commercially viable businesses, primarily through resources already committed to the Polish American Enterprise Fund; (2) strengthen enterprises, especially in the regions, by making available resident business advisors for small and medium-sized enterprises in areas such as formulating business and marketing strategies, preparing loan proposals, and on-line resource assistance information for the Polish private sector; (3) help identify Polish companies looking for U.S. business partners and making their interests known to the American business community.

The strategy for assisting the development of the financial sector focuses primarily upon the banking industry and other financial institutions such as credit unions and rural cooperative banks. Development of the financial sector includes assistance to the Ministry of Finance in the area of debt negotiation, in which Poland recently had unprecedented success. The Government of Poland (GOP) has requested continued assistance in these critical areas, including bank supervision, restructuring and privatization of the banking industry, and in developing Poland's capital market by strengthening the primary and secondary securities market. The GOP has asked that U.S. assistance be focused on: (1) helping recapitalize and restructure a select number of commercial banks through the reprogramming of \$200 million in stabilization fund resources; (2) strengthening the capacity of the National Bank of Poland to implement a sound regulatory and supervisory environment for the banking sector; (3) assisting the banking industry in responding to its role in a capital market environment; (4) strengthening and restructuring rural financial institutions (cooperative banks) and establishing and strengthening financial institutions (savings and loans, credit unions) for consumers and small savers; (5) strengthening the primary and secondary securities market through assistance to the Polish Securities Commission, Warsaw Stock Exchange, and brokerage firms on legal, regulatory, organizational and technical issues, as well as through investor education and protection; and (6) strengthening a market-based mortgage and construction lending system and policies by leveraging World Bank and European Bank for Reconstruction and Development loans with capital through a Housing Guaranty loan, and by technical assistance and training in mortgage institutions and banks at the primary and secondary level.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) 5 of 9 state-owned banks privatized by 1996; (2) 18 million out of 40 million population participating in securities ownership under mass privatization; (3) The proportion of housing constructed by private sector increased from 50% in 1994 to 60% by December 31, 1996; (4) A collateral law enacted by 1995 and a law on bankruptcy by 1996; (5) Between 200-400 loans will be made to create or expand micro-enterprises by February, 1996; (6) the Polish-American Enterprises Fund's small business loan program converted to a full-scale licensed private commercial bank by 1996; (7) A functioning over-the-counter securities market established by end of 1995; (8) A Warsaw stock exchange and a national depository for securities that meets international standards established by 1996; (9) Uniform bank reporting to Central Bank and Central Bank supervision functioning and penalties assessed against non-complying banks by 1996; and (10) Financing for long term municipal infrastructure offered by at least one bank by end of 1996, and loans totaling at least \$5 million financing infrastructure in at least 3 cities by 1998.

Progress in 1993-1994. The Polish American Enterprise Fund has been instrumental in strengthening the private sector. The Fund's small lending subsidiary, Enterprise Credit Corporation, has made over 2,700 loans for a total of \$64 million to small borrowers, and plans are underway to establish a \$20 million micro-lending program. Many of the Fund's investments are contributing to the development of the financial sector, for example, the creation of the first functioning mortgage bank, the first floatation of a private-owned company on the Warsaw Stock Exchange, and the creation of a commercial bank in Krakow. In late 1994, the Ministry of Privatization launched the mass privatization program. USAID-funded advisors played an important role in helping lay the groundwork for it, while also providing technical assistance leading to four privatizations valued at \$22.5 million. USAID assisted with the privatization of eight glass sector enterprises, one of which was the third largest transaction to date. A USAID-funded contractor conducted a business valuation of the Huta Warszawa steel mill, one of the largest employers in its region, as part of the mill's successful privatization. USAID helped establish the Foundation for the Promotion and Development of Small and Medium Enterprises (SMEs), which, along with the Group of 24 (G-24) donors' task force on SMEs, is well-positioned to be a catalyst for change and for the inclusion of private sector interests in policy discussions, especially with the Ministry of Industry and Trade. Advisors at BPH Bank in Krakow have won approval of a strategic plan for the implementation of an investment banking unit at the recently privatized bank. Advisors in the PBK Bank in Warsaw have been providing technical assistance and training on problem loan work outs, credit evaluation, and investment management. USAID has trained banks to help operationalize a market-based mortgage and construction finance program. Three US Treasury advisors are providing guidance to the Ministry of Finance on overall policy concerning bank privatization, commercial bank restructuring and consolidation, and privatization transactions.

Donor Coordination. The U.S. Government is coordinating its assistance activities with other major donors and lenders in order to increase opportunities to maximize the impact of assistance. USAID, which has the predominant role in providing U.S. assistance, will take an increasingly active role in coordinating its assistance activities with other donors, including the World Bank, the European Bank for Reconstruction and Development, the European Union, and other members of the G-24, as well as in leveraging and providing assistance where the U.S. has the appropriate expertise. For example, USAID took the lead in organizing a donor meeting in Warsaw in January 1995. One of the major items under discussions is SME development; the others are municipal development and finance and social sector restructuring (see below). A USAID-funded Department of Treasury advisor has participated in the World Bank team which is looking at a financial sector adjustment loan and there appears to be ample scope for continued close cooperation.

Constraints. As the economic choices get tougher and the room for maneuvering diminishes, movement forward with privatization, bankruptcy, and economic restructuring will require greater political will. Increased tensions between parties and personalities could make true consensus harder to find, especially as upcoming elections begin to overwhelm statesmanship. In addition, the inertia of institutions that were formed and shaped under non-market conditions should not be underestimated and their restructuring or replacement will require time, persistence, and consistency.

#### **BUILDING DEMOCRACY (\$8,150,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$8,150,000).**

Poland is in its fifth year of democratic governance since the fall of communism and has weathered several changes of leadership with no sacrifice of systemic stability. USAID's program in democratic development will build on this firm institutional foundation at the center, attempt to stimulate new habits of on-going active citizen participation, and strengthen administrative responsiveness in the regions. We will also help Poland evolve the legal and judicial systems appropriate for the new market-oriented environment and will continue to support professional and independent media as a necessary concomitant of civic vigilance.

**Activities.** Support will be given (1) to increasing citizen participation and responsiveness at local, regional and national levels, by helping Polish nongovernmental organizations (NGOs) develop viable constituencies and effectively communicate their needs to governments; (2) to strengthening independent, democratic and objective media which understand their public responsibilities; (3) to assisting the legal and judicial system to deal with the new challenges of an open, free-market economy - including economic and organized crime; (4) to reforms that enable government offices at the regional level to provide services which are more responsive to local needs; (5) to helping the design and delivery of civic education and social science education; and (6) to encouraging dialogue between citizens and their elected and appointed officials.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Fifteen indigenous NGO's demonstrating influence over government policy in democracy, environment, economic growth and/or social sector restructuring by January 1977; and (2) A new revenue-sharing formula favorable to towns established by end of 1996.

**Progress in 1993-1994.** U.S. Government assistance has helped streamline the work of the Polish Parliament by providing modern automation and office systems and by training key staff. The program helped develop independent and effective information and analysis bureaus, which are now able to serve the members of Parliament and professional staff and help them better perform their necessary roles in a democratic society. The bureaus now provide assistance to other parliaments in the region. U.S. experts provided comments on the draft Polish Constitution and analyzed Poland's White Collar Crime Law. A group of prosecutors and judges also received training in white collar crime in early 1994. By April 1994, the USAID-supported Warsaw Journalism Center had established itself as the only facility in Poland to offer professional, practically oriented training and had trained more than 200 media and broadcast students of journalism. Most of the former graduates have been offered jobs with major Warsaw newspapers, magazines and radio stations. Several Polish NGOs have received assistance and are now able to offer services ranging from training for the unemployed, business advice and consultation, database for the self-help groups, grants for local press, running community-owned telephone cooperatives, environmental cleanup and protection, and development programs for women. Several Polish municipalities were assisted in managing newly acquired responsibilities such as housing, land, taxation, infrastructure, finance and budgeting, and economic development.

**Donor Coordination.** The European Union (EU) is the most active major donor in the area of local government and NGO development. USAID anticipates working closely with the EU to avoid duplication of effort and to direct available resources where they will do the most good.

**Constraints.** Poland's overwhelming success in establishing a democracy greatly reduces the constraints to its further development in this area. Key issues remaining involve the unlearning of practices of civic passivity that were inculcated by years of authoritarian rule and developing the relationship of the central government to lower-level administrative and political units.

#### **SOCIAL SECTOR RESTRUCTURING (\$21,250,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$21,250,000).**

At the Prague Summit in January 1994, the U.S. President announced his intention to give more attention to the social effects of economic transition in Central and Eastern Europe. This was the base for his July 1994 launching of an initiative to help Poland reform its social sector. The joint Polish-American initiative will refine and expand Polish efforts to restructure the financing and provision of retirement and disability pensions, poverty relief, health care, and housing as well as to address the problem of unemployment. Changing these social service systems is a key element in the transformation of the Polish economy and polity, one which should create synergies with economic

restructuring and democratic reform initiatives. Restructuring the social sector to operate under market conditions is necessary in its own right, and should also maintain popular support for economic reform, which in turn should produce the economic growth and new jobs which are the best ultimate guarantees of social protection. On the other hand, failure to restructure and target the state's role in providing social benefits could stall the country's political and economic transformation.

Activities. USAID will undertake activities: (1) to strengthen governmental and non-governmental capacity for policy, legal, and regulatory analysis in the area of pension and health care reform; (2) to improve the management and efficiency of the existing pension system; (3) to help develop supplemental pension options linked to capital markets; (4) to improve training for modern health care managers; (5) to demonstrate innovative models of organizing, financing, and managing health resources at the local and national levels; (6) to expand and institutionalize new employment services mechanisms to address the needs of the unemployed; and (7) to continue and accelerate development of an affordable mortgage-based housing market, including the introduction of innovative pilot projects.

Indicators. The following is a partial list of indicators measuring progress toward this strategic objective: (1) Database and capacity to analyze subsidies established in Ministry of Spatial Engineering & Construction by the end of 1996; (2) Housing allowance program (including rent-setting policies) established in 25% of towns by the end of 1996; (3) Single-number identifier registration plan developed for the existing Polish pension system by end of 1995; (4) Analysis of policy options for supplemental funded pension mechanisms ready for presentation to Polish Government by July, 1995; (5) A pilot project, consisting of some 500 mortgages, designed to demonstrate an affordable mortgage-based housing market operating by December 1995; and (6) Two independent health care service institutions created by December, 1996, as demonstrations of the Health Care Institutions Act; (7) Two US-Polish health care management education partnerships established and 60 Polish managers have received education through these institutions by December 1996.

Progress in 1993-1994. With USAID assistance, two small housing cooperatives have demonstrated that they can organize themselves to produce affordable houses in a free-market environment. Resident advisors provided assistance to cooperative members and assisted Polish authorities in restructuring and streamlining existing housing cooperatives.

By April 1994, approximately 4,000 Poles had taken a self-employment and entrepreneurial skills training program, and 570 graduates had started their own businesses. By April 30, 1994, over 650 trainees had graduated from the Praga and the Gdynia skills training centers and had been placed in new jobs or returned to existing jobs with up-graded skills. The second training center in Gdynia was officially opened in September 1993. Polish construction companies, U.S. firms and joint ventures are offered construction assistance through on-the-job training arrangements. By 1994, a model regional employment services center was operating, providing training to labor officials throughout the region in order to better serve the unemployed. This center is being replicated in other cities within Poland, providing training to Ministry of Labor and city officials, as well as to officials from the Baltic countries.

By April 1994, more than 3,500 women were screened for breast cancer under a Health Partnerships program, with 30 cases of cancer detected. This screening was initiated for the first time in Poland, the only formal screening program in Central and Eastern Europe. By March 1994, the Friends of Litewska Children's Hospital became the prototype for private funding of capital and technological improvements and for volunteerism. By April 15, 1994, more than 150 physicians and technicians from the cities of Krakow, Bialystok, and Lodz were trained in emergency medical services. Three emergency centers were opened, equipped with ambulances and medical equipment. By the end of 1994, a business plan had been finalized for creating an Integrated Health Delivery System in Lodz.

Donor Coordination. Representatives of USAID, the World Bank and the European Union PHARE program met in December 1994 to discuss areas for donor cooperation in pension, health care, and welfare reform in Poland. This discussion will be continued at the January donors meeting in Warsaw



referred to above. USAID is working very closely with the World Bank in the housing sector, and Bank staff have participated closely in project design activities in the pension and health areas.

Constraints. The social sector in communist Poland was intimately linked with the state's control over production and distribution of goods. As industry and trade come to be ruled by strictly economic criteria, the welfare functions that they also used to perform must be covered by new institutions and practices. The establishment and development of such institutions and practices is a long-term, gradual effort, and one that requires host-country conceptual and managerial flexibility and innovation. The difficulties are compounded by the political sensitivity of this sector, and the redefinition of the social contract implicit in the reforms.

**Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States provided about 63% of technical assistance to Poland. Other major donors are the European Investment Bank of the European Union, Italy, Germany, and Sweden.

**POLAND  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 36,025,000
Building Democracy	\$ 8,150,000
Social Sector Restructuring	\$ 21,250,000
Total	\$ 65,425,000

USAID Representative: Donald Pressley

## ROMANIA

**FY 1996 Assistance to Central and Eastern Europe: . . . . . \$ 46,046,000**

Romania, with 23 million people, is the second largest of the formerly centrally planned economies in Central and Eastern Europe. Following 45 years of Communist Party rule, Romania began its economic transformation after the December 1989 revolution. Since then, as Romania's policies have increasingly emphasized the restructuring of its economy and democratization of its political system, U.S. Government assistance efforts have steadily expanded. The political and economic interests of the United States continue to be best served by an active program assisting Romania to promote a strong, sustainable economic transition and stable democratic society.

### **The Development Challenge.**

Immediately after the 1989 revolution, the Romanian economy experienced a 35% drop in real output levels (including a 50% drop in industrial output) and a 25% compression in real wages, coupled with triple digit inflation. This economic freefall began to show signs of abatement by 1993, when the first indications of a return to positive growth appeared. Macroeconomic reforms, instituted in late 1993 through spring 1994, began to bring runaway inflation under control and stabilized the rate of exchange for Romania's currency.

While significant economic and political reforms have been put in place recently, foreign investors remain skeptical that reform efforts will be sustained and produce results. Five years after the revolution, the low level of foreign investment and inadequate domestic financing hinder the growth of all but the smallest enterprises. During the past five years, foreign investment comprised 1% of gross domestic product (GDP), one of the lowest levels in the region. The democratic and economic transition in Romania continues to face a series of formidable challenges.

Romania's ability to sustain economic reforms and promote a stable democracy face a number of key constraints, including: restrictions against foreign ownership of land; bureaucratic red-tape and corruption; limited availability of investment finance; slow pace of privatization; lack of respect for contractual obligations; lack of a sound electoral registration system; low voter turnout; low confidence in the judiciary; and a weak social safety net.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Romania.

#### **ECONOMIC RESTRUCTURING (\$29,950,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$29,950,000).**

USAID efforts will focus on developing new private businesses in Romania, along with parallel support to the ongoing Government of Romania (GOR) industrial restructuring and privatization programs.

**Activities.** Support for privatization in Romania is a major U.S. assistance goal, though levels of assistance will depend on whether a new and more effective privatization law is passed early this year. Privatization of currently state-controlled businesses, and the reform and restructuring of Romania's largest industrial sectors, will continue. The provision of advisors to the GOR's Restructuring Agency will help state entities to operate according to market principles and to facilitate privatizing the 200 largest state-owned industrial companies, representing over 50% of total industrial capacity. Petroleum sector restructuring efforts will continue to focus on regulatory reforms and demonopolization programs which encourage international investment. A new effort will review

options for restructuring Romania's national power and heat utility company, and instituting a new legal and regulatory system.

Privatization of up to 3,000 smaller enterprises will be supported by assistance to the anticipated new GOR "mass privatization" voucher program. Likely activities include continuation of public information efforts to build public understanding and participation in the privatization process.

Business development activities will include management training and advisory services through programs in local universities and business centers and with volunteers. Private business development in the agricultural sector will emphasize the food processing industry, with programs targeting private operators in the grain milling, baking, meat processing, and dairy processing sectors. USAID will undertake activities in energy efficiency and pollution minimization, linking our strategic interests in those areas with our overall emphasis on business development.

USAID's support for Romanian entrepreneurs will encompass direct investment finance assistance. The Romanian-American Enterprise Fund will enter into full operation during this period. Through loans and equity investments, the Fund will inject new resources into Romania's capital-starved private sector.

USAID will also provide economic reform policy assistance and will continue successful industrial waste minimization programs.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) 200 companies with a net worth of \$90 million equivalent are privatized by the end of 1995; (2) passage of a petroleum law, drafting of an energy law and preparation of a power sector options study by the end of 1995; (3) 50% of landholders obtain legal title by the end of 1996; (4) a stock exchange is operational by the end of 1995; and (5) a \$25 million private investment company is in operation actively purchasing shares of state-owned enterprises.

Progress in 1993-1994. Progress in Romania's economic restructuring efforts during 1993 and 1994 was most evident in the impressive achievements of new private businesses. Despite lingering governmental favoritism towards state-owned companies through 1993, the private sector succeeded in generating 30% of Romania's GDP in 1993 and 35% in 1994. USAID programs provided managerial and technical assistance to over 5,000 Romanian companies between 1992 and 1994.

Privatization of state-owned companies was more uneven during this period. A renewed GOR commitment in 1994 produced most of the over 800 companies which have been privatized under current law. An amended privatization law was passed by the Romanian Senate in December 1994 and will be considered by the Chamber of Deputies in February 1995.

Efforts to restructure the petroleum sector moved forward with the establishment of the National Agency for Mineral Resources, the first independent regulatory agency in Romania. USAID-financed technical assistance had developed the policy and legal framework for the creation of the agency. Environmental improvements were realized by USAID-financed programs through low-cost and no-cost methods of waste minimization demonstrated at the largest oil refinery and petrochemical plant in the country, and shared in outreach workshops.

Donor Coordination. In macroeconomic policy and program financing, direct coordination with the World Bank is quite effective, directly leveraging significant investment through the use of USAID-financed technical assistance. The closest linkages exist in the petroleum industry and the electric utility sector. USAID is helping the World Bank prepare new projects in power sector rehabilitation and refinery industry restructuring and privatization. USAID programs are helping the GOR, World Bank and European Bank for Reconstruction and Development (EBRD) to implement health, social protection, financial sector restructuring, agribusiness development, and local government infrastructure sector activities.

**Constraints.** The national government bureaucracy has not supported implementation of reforms with much enthusiasm. There is a concern that state-company managers appointed by the previous communist regime have positioned themselves to take advantage of the private opportunities. A lack of transparency and consistency, on issues such as different approaches to privatization and pricing policies among state-owned companies, has limited opportunities for private entrepreneurs.

#### **BUILDING DEMOCRACY (\$6,228,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$6,228,000).**

Romania lacks a tradition in democracy, and neither the leadership nor the general populace have strong instincts on their roles and responsibilities. Basic concepts of the rights and responsibilities of citizens to the civil society, and of government to the citizenry, are only gradually being understood and accepted. Further, civic structures, such as the recognized rule of law institutions which support and defend the rights of the individual, and free access to public information, are at a rudimentary stage of development.

**Activities.** Civic education programs support the engagement of key groups in developing a functional, pluralistic society. These groups include political parties, the judiciary, the media, labor unions, and nongovernmental organizations (NGOs). USAID also will work with Romanian partners to prepare for anticipated local and national (parliamentary and presidential) elections in 1996.

Local programs will support legislative actions to decentralize further governing authorities in particular, to gain control over the generation and use of revenues. Additional actions will emphasize improving the management and technical capabilities of the local governments and creating more fora for citizen and government interaction.

Support programs for Romanian NGOs will build on institutional development assistance and training to encompass direct financial support, particularly to groups which are ready to enlarge their role in the public policy process.

USAID will continue efforts to strengthen the Parliament as an independent branch of government with recognized responsibilities to its constituents. Technical assistance and equipment to strengthen staff capabilities will be provided.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) free and fair elections at the local and national levels in 1996 as determined by international and Romanian independent observers; (2) creation of a permanent electoral bureau by 1996, so that elections and election monitoring can occur without a need for specific enabling legislation for each election; (3) a 10% increase in the transfer of tax revenues back to local governments in 1995, and passage of a local government finance law by 1996, which will accelerate the process of decentralization; (4) four pieces of NGO-advocated legislation pass parliament by the end of 1996 (environment; water; NGO sponsorship; and local government finance laws); and (5) direct access to information and analysis through establishment of a modern library and research facility in parliament by the end of 1995, thereby decreasing reliance on official government sources and leading to greater separation of powers between executive and legislative branches.

**Progress in 1993-1994.** Romanian citizens had easier and more effective access to Parliament in 1994. The concept and practice of constituent service by Parliamentarians gained wide acceptance, with local offices being opened for the first time in many areas. Town meetings brought legislators face-to-face with constituents. NGOs gained access to Parliament during debate, and environment-sector NGOs began reviewing draft legislation at the invitation of Parliament.

USAID assistance to municipal governments fostered improved service delivery, focusing on water supply and sanitation. Municipal finance assessments allowed the Romanian Federation of Mayors to begin lobbying Parliament and the GOR on specific improvements related to decentralization of financial

authorities. Assistance in developing condominium associations provided Romania's mayors with a model for addressing the critical management issues of privatized housing. A USAID-financed study tour in the United States succeeded in bringing representatives from key offices of local and national government and Parliament together in a collaborative process for the first time, laying the groundwork for informal networking and a more effective working relationship.

The growth of Romania's NGO community was supported by direct technical assistance in all sectors. An information clearing house was the basis for the creation of a national council of NGOs. The first meeting of the national council allowed NGOs to collaborate on the preparation of key policy papers which provide a framework for public policy interactions with government. Targeted training programs for NGOs in the social service and environment sectors provided basic information on organization, management and fund-raising. Environment NGOs alone raised more than one million dollars in funding from outside sources.

Donor Coordination. USAID coordinates directly with democracy building programs funded by the European Union, and participated actively in an international conference on local government and decentralization sponsored by the European Union and World Bank. USAID-financed technical assistance leverages municipal funding from the EBRD in several cities.

Constraints. National government officials are reluctant to decentralize authorities or delegate governing responsibilities to local levels. There is great difficulty in achieving consensus among the various competing parties on major initiatives and issues of national interest.

#### **SOCIAL SECTOR RESTRUCTURING (\$9,868,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$9,868,000).**

The USAID program will focus on promoting improved access to quality health and social care for the most vulnerable and reducing risks to health and safety caused by environmental pollution. The deterioration of health care delivery systems in Romania and the long-term costs of maintaining the institutional treatment and care system for abandoned and handicapped children raise societal, economic and political issues which are critical to the success of the democratic and economic transition. Outreach and training for the newly unemployed is also needed to sustain support for the reform process and will be the focus of a new USAID-funded activity.

Activities. USAID will continue its support, as needed, to programs that address the needs of Romania's institutionalized children. Social workers will be trained, family reunification and in-country adoption pursued, and facilities for rehabilitation of handicapped children will be renovated. New approaches to taking children and adolescents out of institutions and developing community-based care systems will be tested. A particular effort will be made to keep human immunodeficiency virus (HIV) positive children out of institutions, and to educate the public about prevention of HIV infection.

New approaches to health sector management and finance will form an important part of the portfolio. The program will continue to rely on health partnerships with U.S. health care institutions. Health sector activities will link with industrial environmental programs to give the GOR a capability to monitor, assess and respond to environmental degradation and its impact on health. Women's health and family planning activities will include new approaches which expand access to safe and modern contraceptives as a means of reducing abortion, a major contributor to Romania's maternal mortality, which is the highest in Europe. Initiatives in the area of Ministry of Health reproductive care policies and expanding the commercial availability of contraceptives will be high priorities.

USAID will also work on programs related to the dislocation of workers resulting from the economic reform program. The activities will target retraining, job placement and improved government outreach programs.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Ministry of Health policy in place to protect children and public from unsafe injection practices associated with transmission of Hepatitis B and HIV by the end of 1995; (2) incidence of elevated blood lead levels caused by industrial pollution is decreased by 10% in two project sites by the end of 1995 (among children under six in a copper smelter company town, and workers at an automobile battery factory); (3) through NGO programs, a total of 330 children are adopted (domestic or international); 110 abandoned or handicapped children are in foster care or group homes; and 1250 children are reunited with their families by the end of 1995; and (4) use of modern contraceptives among women increases from 14% in 1993 to 25% in 1996, and the percentage of women who know where to get modern contraceptive methods increases from 85% in 1993 to 95% in 1996.

Progress in 1993-1994. The program has benefitted 1,500 handicapped and abandoned children through renovation work at eight institutions. USAID has financed training for social workers and development of university-level curricula at four Romanian universities and has assisted in the creation of the Romanian Association for the Promotion of Social Work so that social problems can be evaluated and remedied according to culturally accepted methods. Romanian physical therapy and rehabilitation staff have been trained at five institutions, and play therapy has been introduced. A pilot transitional living center for handicapped adolescents has been established, providing living and job skills to previously institutionalized residents. The concepts of foster parenting and group homes have been introduced with successful results. A pilot early childhood education development program has expanded from five to ten sites and has provided the model for the Ministry of Education's new kindergarten curriculum.

Three Romanian family planning NGOs have been developed and are providing high quality, medically sound family planning counseling, education and services through a network of nine clinics serving over 22,000 women.

The first Romanian department for community medicine and family practice has initiated operations. A partner cardiovascular surgery department has reduced its operative mortality rate from over 10% to 3%. A hospital and ambulatory care improvement program has been instituted in three locations. The Romanian Neonatal Association, recently created, has provided the basic curriculum for a new GOR neonatology residency program.

The first specific environmental health activities were initiated during this period, providing monitoring and testing equipment at two sites. The project will measure sulfur dioxide emissions and blood lead levels, assess health impact, and make recommendations for reducing exposure to releases of toxic materials into the environment.

Donor Coordination. Donor coordination in these areas occurs at a number of levels. Multi-donor efforts on Danube River water quality issues involve coordination with the World Bank and EBRD. Similarly, the Environmental Action Plan, agreed to by the governments of Central and Eastern Europe along with donor nations and agencies, and the Global Environmental Facilities provide effective structures for coordination.

Health sector coordination relies on effective interaction at the project implementation level, as well as national efforts. The United Nations Children's Fund (UNICEF) coordination among donors and with the GOR is particularly important; USAID's role as the principal donor to UNICEF's program in Romania gives us crucial access to this process.

Constraints. The deeply acculturated pro-natalist view among the medical community and general populace will continue to pressure against use of modern contraceptives, thereby leading to abandoned children and high abortion rates. The need for fiscal austerity has limited the government's ability to respond to worsening social conditions. Poor management and budgetary practices lead to inefficient use of scarce resources for health and social services. Fear of job loss by workers in children's institutions has slowed the transition to alternative models of care.

**Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States provided about 26% of technical assistance to Romania. Other major donors are Germany, the European Investment Bank of the European Union, Italy, and France.

**ROMANIA  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$29,950,000
Building Democracy	\$ 6,228,000
Social Structure Restructuring	\$ 9,868,000
Total	\$46,046,000

USAID Representative: Richard Hough

## RUSSIA

FY 1996 Assistance to the NIS ..... \$260,000,000

Since the collapse of the Soviet Union in December 1991, Russia has been moving away from an authoritarian state and centrally planned economy toward a more open, democratic society and market-based economic system. This dramatic reorientation is critical to U.S. interests. For the benefits of the Cold War's end to be fully enjoyed in both our countries and around the world, Russia must continue to dismantle the legacy of state control over economic activities, political processes and individual lives, and must reorient its enormous resources to improving the quality of life of its people. Such shifts will bring direct benefits to the American people in the form of increased confidence in sustainable world peace, reduced defense requirements and expanded markets for U.S. goods and services.

Far-reaching economic and political change in Russia has origins in the mid-1980s with *glasnost* (openness) and *perestroika* (restructuring). Change accelerated with the end of the Soviet Union and the birth of independent Russia and the other New Independent States in late 1991. The rapid pace of change continued with the rapid liberalization of many elements of the Russian economy in 1992-1993, and the election of a new Russian parliament in late 1993. Significant progress continued in 1994, resulting in macroeconomic stabilization and reform, as indicated by better functioning markets, increases in personal consumption, massive transfers of ownership of domestic businesses into private hands, increased jobs and income in the new business sector, and an increased flow of direct foreign investment.

Democratic processes have also begun to emerge. Russians in many regions now receive their news from independent newspapers, television and radio stations, and civic organizations now articulate independent views on a range of political and economic issues. There has been a significant devolution of administrative power from the central government to the regions and municipalities. Opportunities for citizen participation in decision-making on public policy issues are beginning to be formalized. Since 1992, the United States has extended significant financial support to the Russian reform program and has contributed substantially to this progress.

The scale and speed of the economic transition envisioned by the current Russian leadership -- a complete transformation, in less than a decade, from a command economy to one led by market forces -- is unprecedented in world history. There are differing views within Russia on how and at what pace to proceed with both political and economic reforms. As a result, while the overall reform trend continues to be positive, the curve is not always smooth. For the average Russian, the major benefits of democracy and market economics are not yet fully demonstrated, and the pain of the transition itself is often apparent in economic conditions that include high inflation, loss of job security, and deterioration of social services. There is real danger of backlash in the current incomplete state of reforms.

The stakes are thus enormous. If the transformation process should falter and yield to economic and political turmoil over the next several years, the United States could not be sure of a secure global environment in which trade and investment could thrive and in which Russians could realize the social and economic benefits of the end of the Cold War. Continuing turmoil could destabilize the region and the globe and impoverish the lives of millions of people. In the second half of the decade, maintaining the course of reforms will thus be critical for the interests of the United States and for the well-being of Russians themselves. Russian initiative will be the most critical determinant of the pace of reform, but the U.S. contribution sends a very important message of support and encouragement and makes a critical difference in removing impediments to key reforms. This stark fact constitutes the major rationale for our ongoing U.S. assistance program in Russia.

**The Development Challenge.**



While Russia can look with satisfaction at progress already achieved, the task ahead is equally challenging. Although the privatization process has progressed much more rapidly than was anticipated in early 1992, it remains incomplete. Infrastructure and investment needed to facilitate industrial restructuring are not yet in place. Domestic investment capital has been slow to mobilize, in part because of continued high inflation (related to a persistent deficit in government financing) and in part because of the high risks associated with the rapidly evolving economic and legal environment. Over-staffing is still prevalent in many firms. Little progress has been made in increasing the productivity of agricultural enterprises, inhibited in part by lack of agreement on whether and how to privatize farmland. While foreign investors are exploring the Russian market, actual investment levels remain relatively low as potential investors display caution in the face of uncertainties about Russia's political future, its poor credit rating, and the perverse economic incentives created by certain taxes, regulations and policies governing economic activity and foreign participation. Corruption and organized crime have emerged as major political and economic concerns, reflecting a lack of functioning systems to maintain the rule of law under open and democratic principles.

### **Strategic Objectives (SOs).**

Efforts in Russia as well as other New Independent States (NIS) are concentrated around three strategic objectives: (1) economic restructuring, (2) building democracy, and (3) social sector restructuring.

To support these objectives, USAID is working alongside Russian partners at both policy and technical levels in a variety of areas. U.S.-funded activities aim at knowledge and skills transfer and include pilot and demonstration efforts, which have proven to be useful first steps to reform in sectors including private enterprise development, energy, housing, health and political processes. For example: by making available to Russia the expertise of analysts and advisors who are experts in their fields, U.S. assistance has enabled Russian decision-makers to determine quickly which sequence or mix of actions could best fulfill their reform objectives. By underwriting training courses, internships, and exchanges for Russians from all walks of life, U.S. assistance has enabled those ultimately responsible for undertaking this historic transition to acquire and apply new ideas, new tools, and new approaches.

The U.S. assistance program in Russia involves many U.S. government entities and a host of U.S. private business firms, voluntary organizations, and universities acting as advisors or experts in various technical areas, as well as a growing number of host country partner organizations and the national and regional governments of the Russian Federation. These efforts are opening doors for U.S. investors and trading partners, who are increasingly important in the economic environment of Russia. Our assistance and cooperation are forging links largely outside government-to-government channels.

### **ECONOMIC RESTRUCTURING (\$187,000,000).**

**SO 1. To foster a competitive, efficient, market-oriented economy in which the majority of economic resources are privately owned and managed, and economic decisions are based primarily on individual choice (\$187,000,000).**

**Activities.** U.S. assistance is heavily concentrated in programs aimed at helping Russia complete the transition from a state-controlled economy to a market system based on private property, competition and a dynamic business sector. The success of this transition is essential for laying the foundation for long-term sustainable growth, increased employment and higher living standards in Russia. With the successful privatization of a large segment of Russian industry, attention has turned to helping create a legal and regulatory climate in which private business can thrive and to assisting traditional enterprises in restructuring along market lines as well as promoting the creation and growth of new business, assisting with fiscal reform, promoting a modern banking industry, and improving the use of natural resources.

(A) Privatization and Post-Privatization Restructuring. U.S. advisors are assisting significantly in the transfer of state assets to the private sector. In 1994, the Russian government's small-scale and mass privatization programs resulted in privatization of 70% of the industrial sector, or approximately 100,000 businesses, and 40 million Russians becoming shareholders. With the successful conclusion of this program in mid-1994, future privatization assistance will shift to supporting cash sales of the remaining state enterprises and of the government-owned shares of privatized enterprises. A major new initiative will build Russian capacity to help privatized firms to restructure and become more efficient. The goal, in addition to restructuring selected enterprises that will serve as models, is to train a core of Russian management consultants who can carry out these functions on a commercial basis after U.S. assistance ends.

(B) Legal and Regulatory Framework for Private Sector Development. Legal and regulatory reform receive a high priority in U.S. assistance programs because of their importance for creating a hospitable environment for successful market development. Legal advisors provide technical assistance and training to counterparts in the Office of the President, the Parliament and the Center for Private Law Reform to support the drafting of specific laws and enforcement mechanisms, based on the recently enacted civil code. Activities in 1995-96 will focus on areas essential for the development of a strong private sector economy such as de-monopolization, real estate sales, securities market regulation and banking supervision.

(C) Fiscal Reform. American advisors are assisting Russia to reform tax codes and improve tax administration. The current inadequate tax system impedes domestic and foreign investment and encourages tax evasion and economic crime. By limiting tax revenues, it also prevents Russia from managing large, destabilizing budget deficits. Through training and expert advice, U.S. assistance will provide the central government with the capacity to improve revenue and expenditure analysis and tax collection. Other support will be aimed at upgrading tax administration at the regional and local level where more than half of revenues will be retained and expenditures incurred under the new system of fiscal federalism. In providing this assistance, USAID will coordinate closely with the International Monetary Fund and World Bank to ensure that U.S. activities support and complement their efforts to encourage sound macroeconomic policies.

(D) Capital Markets and Banking. The U.S. gives high priority to helping Russia build the legal and institutional infrastructure needed to permit the mobilization of savings for investment in a modernized economy. Substantial capital is required to retool privatized industry through stock trading and new stock offerings. U.S. technical assistance is focused on support for an independent regulatory body; independent share registries; clearance and settlement organizations; recognized accounting, reporting and auditing standards; and ethical codes for corporate officers and dealer/brokers to protect shareholder rights. These institutions are absolutely essential to creating confidence among both foreign and domestic investors. In addition, U.S. advisors are training bankers and assisting the Central Bank to improve bank supervision and payments clearance. This assistance is closely linked to major World Bank funding.

(E) New Business Development. To stimulate the growth of new small private businesses, which are expected to be a major source of new employment in Russia as the market develops, the United States is supporting the creation of multi-purpose business development centers in eight, and possibly up to twelve, cities. The centers will provide training and advisory services to small businesses and work with local governments to create a hospitable environment for private business growth. They are intended to demonstrate the benefits of small business development in localized settings and serve as models for replication throughout the country. While drawing initially on expertise of USAID consultants, Peace Corps volunteers and U.S. retired executives, the centers are designed to be operated by trained Russians on a self-financing, fee-for-service basis when U.S. funding ends.

(F) Direct Support for Trade and Investment. Direct support for individual commercial ventures is supported primarily through programs of the Export-Import Bank, OPIC and the Trade and Development

Agency (TDA), but USAID also supports investment and trade directly through the Russian-American Enterprise Fund, the Fund for Large Enterprises in Russia and a small loan window managed through the European Development Bank.

(G) Land Privatization and Agricultural Restructuring. U.S. assistance is supporting local pilot projects on land market development to promote secure land tenure and sale of land among private parties -- which are prerequisites to private investment and revenue generation for local governments. Technical advisors are working with Russian counterparts to institute real estate information systems in urban, semi-urban and rural areas to facilitate land titling, registration, transfer, mortgage finance, zoning, and eventually property taxation in those areas where significant privatization has already occurred. Other pilot projects include efforts to foster breakup of privatized collective farms to form more efficient units, to assist city administrations to transfer land rights to privatized enterprises and the sale of enterprises' surplus land holdings, to train real estate practitioners, to develop systems of property taxation, real estate appraisal, and leasing and rental procedures.

(H) Promotion of Efficient, Sustainable Natural Resource Use. Energy assistance is helping Russia develop options for restructuring the electric power industry on a market-oriented basis and for promoting private investment in modern power generation facilities. Work is underway on assessing alternative restructuring options and legal arrangements. Smaller-scale efforts are continuing on helping Russia improve demand-side efficiency.

U.S. environmental assistance supports pilot projects at the regional level to help Russia gain experience in countering the most severe health risks from industrial pollution, reducing urban pollution and managing natural resources such as the Lake Baikal watershed and the Far Eastern forests in ways that promote commercial viability and support long-term biodiversity. These programs emphasize the economic benefits of sound environmental practices and encourage community participation. Local demonstration of such practices will lead to models that can be replicated in other regions.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective:

- (1) Reduce fiscal deficit from 10% of gross domestic product (GDP) in 1994 (with arrears) to 5% of GDP in 1997 (no arrears);
- (2) Excess wages tax eliminated for foreign companies by mid-1995 and for domestic companies by 1996;
- (3) Law on natural monopolies enacted by end of 1995;
- (4) Securities Commission to promulgate standard procedures and guidelines for share registrars, depositories, and clearing and settlement organizations by end 1995;
- (5) Stockbroker dealer/trader associations in five regions trade 75 or more stocks through electronic trading systems, with full disclosure of price and volume, by end 1995.
- (6) Operations of 16 prototype large-scale privatized enterprises restructured by 1996, having converted their accounting systems to Western standards by end of 1995.
- (7) Proportion of privately-held land increases as buyers and sellers in 13 regions complete transactions on urban, commercial and industrial land by end of 1995 and 20 former collective/state farms in up to six regions are broken up by end of 1995.
- (8) Fifteen percent increase from 1994 to 1996 in number of private firms in (a) local markets once dominated by state-owned enterprises, and (b) international export markets;

(9) Foreign investment increases to \$10 million in 1995 and \$20 million in 1996; domestic investment increases to \$1 million in 1995 and \$3 million in 1996;

(10) Power Regulatory Commission registered by mid-1996, and trained and functioning by early 1997.

(11) Establishment of new environmentally sound and economically viable timber processing/products industries, U.S.-Russian joint ventures in sustainable forestry and small/micro enterprises in indigenous forest communities by 1997;

(12) Measurable reduction by 1997 in air and water pollution at selected industrial and municipal facilities through use of no-cost/low-cost waste minimization measures.

Progress in 1993-1994. (A) Privatization and Post-Privatization Restructuring. At the beginning of 1992, there were nearly 150,000 non-defense enterprises in Russia, owned by central or municipal government. By the end of 1994, majority share-holdings in 100,000 companies had been transferred or sold to more than 40 million citizens. The implications of this massive transfer of ownership are far-reaching, affecting not only Russians' incentives to work and invest but also altering fundamentally the possibilities for Russian enterprises to draw on the technology and investment capital available in the world market. More immediately, privatization has meant that 50 percent of gross domestic product (GDP) and employment now originate in the private sector. U.S. advisors have also been instrumental in helping to establish the Russian Privatization Center and 10 related regional centers whose task it is to support privatized companies in restructuring to become competitive in a market environment.

(B) Legal and Regulatory Framework for Private Sector Development. In 1993-94, the U.S. provided expertise to assist the reformulation of legal and regulatory codes and structures affecting a range of economic issues. Legal and financial advisors have enabled Russian decision-makers to tap into experience as they draft laws and regulations appropriate to the economic transformation. The Russian parliament has adopted the first part of a new civil code and is actively considering several other key laws that have been developed with U.S. assistance.

(C) Fiscal Reform. Russia made significant progress toward macroeconomic stabilization in 1994 by pursuing an austerity program with the International Monetary Fund that reduced inflation from more than 20 percent a month to 5-7 percent, by restricting monetary growth and credits to unprofitable industrial enterprises and farms. At year's end, Russia's fiscal deficit had declined to about 10 percent of GDP. A tight budget adopted by the Duma and the Yeltsin administration in June 1994 lays out a course for a further reduction to the IMF's target of 8 percent in the next year. While the IMF played the leading role in advising the Russians in areas involving curtailment of fiscal expenditure, U.S. advisors provided complementary assistance on the revenue side.

(D) Capital Markets and Banking. To facilitate mobilization of capital for restructuring and investing in private enterprise, U.S. advisors have worked in several key areas of capital market development. With U.S. help, private stockbroker dealer trading associations were formed in five regions by September 1994. A commission to regulate securities market was established in 1994 to oversee operations of the new capital markets. Guidelines and regulations for share registrars, depositories, and clearing and settlement organizations were substantially established by December 1994. Training in bank supervision and banking functions supported the growth and improvement of Russian commercial banks, which grew from 1,713 in 1992 to 2,294 in 1994.

(E) New Business Development. Private business advisory support centers were established in six regions by the end of 1994. Through these centers, small business experts have helped hundreds of new entrepreneurs with technical and business advice, and U.S. advisors have begun training their Russian counterparts to assume business consulting activities. Over 300 Russian entrepreneurs

participated in business-related training and/or exchanges in the United States by the end of 1994.

(F) Direct Support for Trade and Investment. U.S. Government financing and guarantees extended to U.S.-Russian business deals in 1994 could ultimately result in investments topping two billion dollars. Many U.S. Government agencies played complementary roles in this area, with USAID, the Department of Commerce (DOC), the Trade and Development Agency (TDA), the Overseas Private Investment Corporation (OPIC), and the Export-Import Bank (EXIM) each contributing resources.

Two new USAID-sponsored funds -- the Russian-American Enterprise Fund and the Fund for Large Enterprises in Russia -- began operations and made their first investments in 1994, providing equity and debt financing to Russian private businesses and Russian-U.S. joint ventures. USAID resources also capitalized a Small Business Loan Fund administered by the European Development Bank (EBRD). USAID's Commodity Import Program began to finance Russian imports of U.S. equipment in the energy and environmental areas.

The Department of Commerce's BISNIS Center in Washington has provided information on opportunities for U.S. businesses interested in investing in or exporting to Russia and its American Business Centers help U.S. businesses enter the market. TDA has co-financed approximately 50 feasibility studies for investments while OPIC's insurance and financing assistance has been extended to 25 firms, mostly in the energy sector, and is sponsoring establishment of up to three private investment funds.

(G) Land Privatization and Agricultural Restructuring. Progress on land privatization in Russia has been slower than that for enterprise privatization, but the Duma began consideration of a basic land code (drafted with assistance from U.S. advisors) and many collective farms were broken up and reorganized as a preliminary step toward full privatization. More than 80 million small plots of land have, in fact, been privatized, mostly in urban and semi-urban areas. A U.S. study of farm reorganization developed models that may be applied to future privatizations, and a new USAID project was designed to address key constraints to farm restructuring -- the need for agricultural credit, for new social service delivery mechanisms for farm families, and for private agribusiness services and suppliers to support commercial farm production.

(H) Promotion of Efficient, Sustainable Natural Resource Use. Oil prices continued to be administered but were moved closer to world prices in 1994, with oil and gas wellhead prices increasing from less than 5% of world market prices in early 1993 to about 30% in mid-1994, and comparable increases in retail product prices from less than 25% to 55% of world levels. Natural gas prices for industrial users were indexed to the producer price index in mid-1993. Electric power plant and industrial energy efficiency increased by 30% in plants where technical assistance has been provided by USAID. A nearly complete joint Russian-American study is identifying alternatives to unsafe nuclear energy plants, and is estimating future energy investment needs that could be met by private foreign investors, as well as revenue generating requirements. Collaboration in developing proposals for major restructuring of the Russian electric power sector -- the largest in the world -- began in 1994. Cost-shared gas and electric utility partnerships between U.S. and Russian companies are facilitating the transfer of management approaches needed in a market economy.

Donor Coordination. Cooperation with other donors on assistance to the economic transition in Russia has been extensive, particularly at the sectoral level where U.S. technical assistance is often linked closely to preparation for large capital investment by the multilateral development banks. Some examples include: In tandem with privatization of much of the urban housing stock in Russia, USAID provided an advisor to work with the World Bank to formulate significant post-privatization loan programs intended to develop real estate as an important commercial sector in Russia. USAID-funded advisors also are doing significant analytical work to pave the way for a major World Bank loan in the electric power sector. USAID has provided funding to the European Bank for Reconstruction and Development (EBRD) for lending to small businesses.

**Constraints.** The principal constraints to achievement of U.S. assistance objectives in economic reform arise from the ongoing debate within Russia on the pace and direction of reform. The practice of setting public policy through democratic processes involving both the executive and legislative branches is new and still fragile in Russia, resulting in potential for dramatic changes of position and direction with the rise and fall of individual leaders. A case in point was the recent appointment and almost immediate dismissal of an anti-reform official to head the key privatization agency. The basic direction of reform was ultimately reaffirmed in that case, which did, however, illustrate its vulnerability to diversion. This episode also demonstrates the importance of working with our Russian partners to strengthen permanent institutions and processes reflecting market-oriented approaches that will survive the tenure of individuals.

## **BUILDING DEMOCRACY (\$61,000,000).**

**So 2. Support the transition to democratic political systems, transparent and accountable governance and the empowerment of indigenous civic and economic organizations that ensure broad-based participation in political and economic life (\$61,000,000).**

By giving most Russians a tangible, personal stake in the future of Russia, successful economic reforms will help to maintain the political reforms that have taken place so far. But further strengthening of the nascent democratic systems is needed to ensure completion of the economic transition and to prevent the reemergence of authoritarian abuses that characterized Russia's past. In promoting democratic reforms, the United States recognizes the differences between our two countries and seeks to encourage democracy with a distinctly Russian voice, one heard in elections, in independent media, in grassroots organizations, in courts of law and in local governmental institutions.

**Activities.** U.S. advisors are working with their Russian counterparts to strengthen basic democratic values in five key areas--elections and political parties, independent media, grassroots organizations, rule of law and local government.

(A) **Strengthening Democratic Political Processes.** As Russia embarks on the important task of solidifying its new democratic experience through a second round of parliamentary elections in late 1995 and presidential elections in mid-1996, the U.S. is supporting those efforts by strengthening a wide spectrum of democratically oriented political parties and organizations, as well as the election process itself. Political party development and support to advocacy groups such as labor unions focus on building skills in grassroots organizing, coalition-building and public education around key issues.

(B) **Developing Independent Media.** U.S. assistance helps to broaden citizens' access to news, information and opinion supplied by fully independent, financially viable organizations in both the electronic and print media across Russia. Building on work already achieved in television news, U.S. experts are expanding their focus to include the written press, wire services and production houses. Journalism education and assistance on media advertising and financial management of independent news organs also help ensure freedom from state control. Future programs will focus on developing partnership activities between Russian media organizations and American counterparts; fostering linkages between U.S. and Russian journalism schools; and supporting independent wire services.

(C) **Fostering The Rule of Law.** Responsible, accountable governance and the rule of law result from laws and institutions that protect citizens' rights and freedoms while maintaining law and order. The U.S. is strengthening judicial institutions through education and training of judges, prosecutors and the private bar, and through a pilot project to reintroduce the jury trial system for the first time since the 1917 Revolution. Reintroduction of jury trials is a major milestone in the shift of Russian criminal justice from an inquisitorial to an adversarial (i.e., burden of proof) system. Legal drafting assistance in criminal and civil law is also being provided. Cooperation between U.S. and Russian law enforcement agencies will focus on combatting organized crime, traffic in illicit arms and drugs, and

other crimes with international implications. Legislative bodies are being strengthened through development of a legislative research entity in the Duma and Federation Council at the federal level, and assistance to regional legislatures will be considered as opportunities arise.

(D) Strengthening Non-Governmental Organizations. Citizen participation in public policy debate and community life is a key element of any democracy, and the emergence of a large number of non-governmental organizations (NGOs) in Russia indicates real progress in developing a democratic civil society. Ongoing support to such groups includes a program of micro-grants to local NGOs as well as training for NGO leaders on organizational development and operations, and the conduct of advocacy, outreach and fund-raising campaigns through regional centers where NGOs can come together as consortia. A limited number of "linkage grants" support partnerships between American and Russian NGOs.

(E) Strengthening Local Government. The ability of local governments to be responsive to residents is critical to a democratic society. One element of this responsiveness depends on effective and efficient management of public resources. As these capabilities are applied, public policy debates on budget priorities can provide new routes for citizen participation and governmental accountability. These management improvements are being fostered through the municipal finance and management program, with much of the assistance targeted on transparent and accountable budgeting process and on improvement of key services such as ambulance services and public transit, which directly affect people's lives and can thus quickly respond to public demand through management improvements.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective:

(1) Legislation and/or regulations enacted by 1995 establishing improved process, timing and independent management system for conduct of democratic elections;

(2) Legislation influencing political development, such as a law governing the legal standing of political parties, developed and advanced through the parliament by end of 1996.

(3) 65% of population served by independent, financially sustainable local TV stations in 1997;

(4) Legislation ensuring independence of judiciary is instituted and implemented by mid-1996;

(5) Civil/criminal laws and regulations promoting effective court operations, enforcement of judgments, guarantee of right to speedy trial, right to counsel and due process implemented by the end of 1996, and consensus achieved among procuracy, judiciary, investigative organizations and private bar on new roles in the criminal justice system;

(6) By end 1995, legal information and counselling on NGO rights and responsibilities will be available on a permanent basis through a nationally distributed NGO legal handbook, a legal assistance network of Russian lawyers providing pro bono services to NGOs, and a library of national and local laws affecting NGOs;

(7) The fairness of the criminal justice system increased through the widespread use of jury trials from 9 regions in 1994 to 14 regions by the end of 1996;

(8) Municipal finance and management systems in at least five major Russian cities modernized and responsive to citizens by end of 1996.

Progress in 1993 - 1994. (A) Strengthening Democratic Political Processes. The successful elections of 1992 and 1993 -- including the referendum on the constitution -- represented Russian voters' first free election experience in nearly a century, and their first ever participation in a universal suffrage

vote. U.S.-sponsored support for grassroots activity in the political arena is expanding on this experience. U.S. advisors have provided training and technical assistance to more than 4,000 political activists from a broad range of democratic parties in over three dozen cities across Russia. Reform of electoral administration is moving forward on schedule, and U.S. technical support is winding down, although some assistance will be provided for the parliamentary and presidential elections scheduled for late 1995 and mid-1996. In the legislative branch, the U.S. Congressional Research Service began work with the state Duma to establish a research unit to support legislators' needs.

(B) **Developing Independent Media.** U.S. assistance has played a key role in raising levels of professionalism in the broadcast media and in breaking the government monopoly on television in many regions. Independent television stations in most of Russia's 100 major cities now cooperate in a U.S.-sponsored programming exchange that is developing into the first nationwide independent television network in the country. U.S. advisors and professionals-in-residence have helped independent Russian newspapers, television stations and other media groups to achieve the business expertise and advertising base needed for true editorial and financial independence. U.S. assistance has also improved independent local news coverage, including election coverage and stories critical of government actions (such as the Chechnya military operation).

(C) **Fostering The Rule of Law.** U.S. assistance has strengthened judicial institutions through training and continuing education for judges, prosecutors, and other legal practitioners, and through an expanded jury trial program. The jury trial program remains a key vehicle in the reform of the whole criminal justice system. President Yeltsin's office recently announced that over 150 jury trials have occurred in nine regions, and that the next step is to extend the model program throughout Russia.

Russia has made significant progress in replacing its outdated civil code and related commercial laws with a more market-oriented rule-of-law legal regime. On January 1, 1995, part one of Russia's new civil code became effective. Prepared with USAID assistance, the code will serve as Russia's legal economic blueprint for many kinds of future economic transactions, trade and investments. USAID will continue to work with the President's office and the Parliament on the next phase of this new code, and with the judiciary on establishing Russian capacity to adjudicate cases involving new laws.

Legislative bodies are being strengthened through development of a legislative research entity in the Duma and Federation Council at the federal level, and assistance to regional legislatures will be considered as opportunities arise.

U.S. assistance has also begun confronting corruption and crime, and developing a fair, impartial, efficient and effective prosecutorial capacity that balances criminal prosecution with citizen rights. Cooperation between U.S. and Russian law enforcement agencies begun in 1994 is combatting organized crime, traffic in illicit arms and drugs and financial crimes with international implications.

(D) **Strengthening Non-Governmental Organizations.** The number of advocacy groups and other grassroots citizen organizations in Russia has grown dramatically, with more than 30,000 such organizations now officially registered. Many of these organizations are beginning to form alliances or networks that will eventually be able to fulfill the key advocacy, outreach and informational functions of citizen groups in a democracy. USAID has supported partnerships between U.S. and Russian non-governmental organizations (NGOs) as well as small grants to local groups including social-service charities, business groups, environmental and human rights organizations. The Eurasia Foundation has also provided significant support to local NGOs.

(E) **Strengthening Local Government.** Decentralization of government functions and of fiscal resource management responsibility is a central feature of the current Russian political scene. This trend was supported by the municipal finance and management program, which provided technical assistance together with training and computer equipment to local governments on a pilot basis in Moscow, Nizhny Novgorod and Vladivostok to develop models for budgetary management. Officials from these



cities have visited the United States to see local government in action, and a number have returned to Russia and begun conducting increasingly participatory public hearings on budget and spending issues.

**Donor Coordination.** Democracy-building activities are generally outside the purview of the World Bank, although improvement of public administration and legal infrastructure development are included in many Bank country programs, including that for Russia. Work on these issues has thus been closely coordinated with the World Bank, which is developing a new program that will build upon the experience of U.S. assistance efforts. The United States is the leading bilateral donor in this area and is coordinating support for non-governmental organizations with similar efforts funded by the European Union.

**Constraints.** In this area, the constraints and the targets of assistance coincide in the fragility of Russia's new political institutions and processes. Russian leaders and citizens suffer from the legacies of more than 70 years of communist rule and centuries of autocratic monarchy, and a near-total absence of experience with democratic self-rule. The United States must expect to see difficulties along the path to democracy and must be prepared to lend assistance where invited, while respecting Russian approaches that will inevitably differ from our own democratic traditions in many respects.

#### **SOCIAL SECTOR RESTRUCTURING (\$12,000,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$12,000,000).**

Russia's success in managing the human dimensions of political and economic change will have a major effect on the viability and durability of democratic and market reforms. The perception that reforms benefit only a privileged few and harm the social and economic welfare of the average Russian is creating opposition and backlash to fledgling democratic and market institutions. U.S. assistance must therefore help Russia demonstrate that the give-and-take of democracy and an open, market-based economic system can be compatible with adequate delivery of social services and the problems faced by vulnerable population groups.

**Activities.** Housing and health care services have proven to be critical social concerns for many Russians in 1994 and it is on these areas that U.S. assistance has focused.

**(A) Housing Sector Reform.** Housing supply and quality in Russia have been adversely affected by competing public sector budgetary priorities and, recently, by severe fiscal constraints. Municipalities, state-owned enterprises and collective farms have long owned and subsidized the rent of millions of units. In many cities, housing costs account for 40% of local budget expenditures, yet a housing shortage continues throughout Russia and available housing is poorly maintained. U.S. assistance supports restructuring and privatizing the housing stock and new construction.

U.S.-supported activities in the housing sector are developing models for the privatization of management and maintenance for publicly owned housing, the sale of real estate through market mechanisms, the movement of rent structures toward full cost recovery, the development of market-based mortgage lending procedures, and the redesign of housing subsidies to target low-income households. In coordination with national and local-level governments, USAID supports initiatives to increase private access to land and housing ownership by improving land allocation and registration (as described above); introducing competitive management and maintenance services; and promoting condominium formation. Real estate professionals are being trained so that, when the legal framework is developed, people with the necessary capabilities will be able to develop a private residential real estate market. Working with municipalities to reduce the fiscal burden of housing subsidies, USAID advisors are providing technical support to a gradual increase in rents toward full cost recovery. U.S.

assistance in this area is mindful of the hardships which vulnerable households will encounter in covering the full cost of their housing.

Assistance in FY 1995-96 will focus on implementing policy reform measures related to each activity. Technical assistance is being provided to develop real-estate brokerage associations. A pilot program to introduce condominium ownership will be ready for replication to over 100 cities in Russia by 1997. USAID is cooperating with government ministries and banks to establish pilot programs for commercial financing and market-based mortgage lending and to develop a regulatory and financial framework for public infrastructure in support of new development. Laws on ownership and registration of land, mortgage laws and municipal finance remain a high priority and require further reform.

(B) Health Care Finance and Service Delivery Reform. Problems impairing the availability, efficiency and quality of health care services, pharmaceuticals and medical supplies in Russia include recent budgetary difficulties, outdated technologies and collapse of the pharmaceutical and medical-products industries. U.S. assistance in health addresses these problems through support for pilot efforts to demonstrate alternative cost-efficient methods of financing health care and directing medical resources toward preventive as well as curative care; support for expanding supplies of safe contraceptives as an alternative to the extensive use of abortion as a family planning method, and of other critically needed drugs; and fostering U.S.-Russian medical partnerships.

USAID's program places particular emphasis on establishing secure supplies of critical pharmaceuticals and medical commodities through support for U.S. private investment in Russian production, improving drug distribution and information systems, and strengthening regulatory capacities. Supporting Russia's own efforts to decentralize and reform health care, USAID is testing pilot regional efforts to demonstrate new financing approaches, market incentives to quality care, and cost-effective outpatient care systems.

A new women's reproductive health initiative will address the problem of very high rates of maternal mortality associated with the repeated use of abortion in the absence of family planning services. U.S. assistance will promote modern family planning technologies and services through demonstration and training centers, as well as public education.

A program of medical partnerships between nine major U.S. medical institutions and Russian counterpart institutions is helping to update clinical and management practices in a range of specializations, including emergency services, neo-natal and pediatric care, surgery and hospital infection control.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective:

Housing:

- (1) Market-rate mortgages accessible to the public through 15 Russian banks by 1997;
- (2) Enactment of legislation clearly establishing private property rights, including fee-simple ownership of land/structures for housing and commercial users by the end of 1996;
- (3) Enactment of enabling housing finance legislation, including a law on mortgages, by the end of 1997;
- (4) Rents for municipal housing at least 80% of full operating costs on average nationwide by the end of 1998;
- (5) Enactment of housing allowance program in the Russian Federation achieved by 1993 (?);

Health:

- (6) Total hospital days per 1000 population reduced by 15% from 1994 level by 1996;
- (7) At least 4 pharmaceutical facilities producing at least 15 critically needed pharmaceuticals using good manufacturing practices by 1997;
- (8) Working models of consumer choice of primary care providers in each of 4 oblasts in Siberia are introduced by 1996;
- (9) Reduction of abortion use at demonstration sites verified by service statistics;
- (10) Five participating hospitals show recorded decrease in rate of hospital infections.

Progress in 1993-94. (A) Housing Sector Reform. Moscow and other municipalities have made substantial progress in implementing housing reforms by drawing on the models developed with U.S. assistance. Through the work of the long-term resident advisors, major achievements in this area have included the passage of the "Law on the Fundamentals of Land Policy" in Russia. In Moscow, maintenance and management of over 100,000 units has been shifted from the public sector to private firms. A pilot program to introduce condominium ownership and management through condominium associations began in 1994. Initial experience has been highly positive, and the program will be replicated in over 100 cities in Russia by 1997. A land demonstration project in Ekaterinburg transferred municipally-owned land to a private developer through an open competitive process.

USAID has supported the long-term mortgage lending initiative begun by a leading commercial bank on a trial basis in May 1994. A mortgage instrument that takes into account high rates of inflation was specifically designed for Russia. The Association of Mortgage Banks of Russia (AMB) began a series of training courses and a "Mortgage Handbook" publication series.

USAID assistance also led to a Russian regulation in September 1993 stipulating that state housing rents will be raised to cover full operating costs over a five-year period, and requiring governments to implement allowance programs for the needy when rents are raised. A means-tested housing allowance system has been introduced in Moscow and other cities.

A special housing program targeted at Russian military officers demobilized as part of Russia's withdrawal from the Baltic states was funded in 1994, and a pilot program provided units to 450 officers. Construction and provision of housing units for a further 5,000 officers got underway in late 1994 and is expected to be completed in late 1996. While initiated by the U.S. President to meet foreign policy objectives, this program has also provided an opportunity to demonstrate private housing construction and ownership. No further funding is anticipated.

(B) Health Care Finance and Service Delivery Reform. The Russian parliament passed legislation decentralizing responsibility for health care delivery and financing, and providing a framework for health insurance. U.S.-Russian medical partnerships that have been underway since 1993 have disseminated new knowledge and practices to Russian hospitals and have established important linkages for continuing medical and nursing education, which are vital to improving the efficiency of the health care system. These partnerships have also emphasized improved administration of health care services. Over 500 health professionals have been trained in the United States through U.S.-sponsored exchanges and training programs. The United States has also helped to improve Russia's health surveillance system, including the start of a longitudinal study aimed at tracking the health of Russia's people during and beyond the period of economic transition.

Donor Coordination. Housing-sector cooperation between USAID and the World Bank has been especially close and productive. The World Bank plans to support a large mortgage financing program

in the future, and is relying heavily on USAID technical assistance in mortgage finance to provide the legal framework and initial "ground-truthing" of this effort.

USAID has been actively involved with the World Bank in providing technical assistance on design teams in health care reform and financing. In addition, USAID is collaborating with the World Health Organization on issues of vaccine security.

Constraints. In the social service sector, the most significant immediate constraint to progress is the severe lack of public financial resources, especially at the local and regional level. While this gives added impetus to the reform process aimed at greater cost-effectiveness and sustainability, in the short term it also increases the challenge of continuing to provide essential services during the restructuring process.

**RUSSIA**  
**FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$187,000,000
Building Democracy	\$61,000,000
Social Sector Restructuring	\$12,000,000
Total	\$260,000,000

USAID Mission Director: James Norris

## SLOVAK REPUBLIC

**FY 1996 Assistance to Central and Eastern Europe . . . . . \$32,465,000**

Slovakia emerged as an independent nation on January 1, 1993, after power-sharing negotiations between the Czechs and Slovaks led to a peaceful separation of the Czech and Slovak Federal Republic (CSFR) into two states. The new government embarked on economic, political, and social reforms for which U.S. support continues to be critically necessary. Subsequent leadership changes have not led to a fundamental change of course. Supporting a peaceful and sustained transition to market-oriented democracy in Slovakia contributes to the U.S. foreign policy objective of promoting stability, prosperity, and peace within Central and Eastern Europe.

### **The Development Challenge.**

After a number of rocky years, during which Slovakia shared many of the same economic shocks as other transforming countries in the region, 1994 showed signs of an economic up-turn. Gross domestic product (GDP) fell about 25% in real terms from 1990-1993, but the recession ended in 1994 with a 3-4% rate of GDP growth. The government continues to follow prudent monetary and fiscal policies, which have resulted in a falling rate of inflation and a relatively low budget deficit. Direct foreign investment has increased, as has the share of GDP produced in the private sector. Average real wages have risen in line with GDP.

The economic picture is not without its sobering side, however. Slovakia carries a particularly heavy adjustment burden, because much of its industrial base was comprised of defense-related enterprises. Many of these and other large state-owned enterprises are heavily indebted to the banking system and to each other, as vain attempts to cope with the initial shocks of collapse of traditional markets compounded a history of old-regime financial laxness. This problem needs to be solved to free capital for investment in viable new or restructured businesses. After initial successes, the privatization effort that began under the CSFR has slowed and become hostage to political conflict. Completing this process remains a key development challenge, as does translating privatization into a strong private sector of competitive, efficient firms.

Unemployment is high at 14.5%, and some regions of the country experience nearly twice that rate. Drawing these high unemployment regions into the general growth path will be an important task for economic policy makers in the near future.

Because of the dislocations caused by the collapse of the old system and the adjustments necessary to accommodate to a market-based economy, social sector restructuring is an important element of the overall adjustment process. Needs include the establishment of unemployment insurance and other safety net mechanisms, the introduction of new and financially viable health insurance and delivery systems and means-tested housing allowances.

While the macroeconomic situation is improving, and steady, if modest, growth appears likely for the next few years, much work needs to be done on democracy-building. The recently elected government has shown some early tendency toward centralizing power. It is, therefore, critical that democratic reforms begun in 1990 continue, that the independent media and judiciary are further strengthened, and that decentralization of economic and political power continue.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Slovakia.

#### **ECONOMIC RESTRUCTURING (\$22,180,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$22,180,000).**

Privatization remains the cornerstone of the Government of Slovakia's (GOS) economic reforms. The Slovak privatization plan, inherited from the former Czechoslovak federal government, addressed small-scale and large-scale privatization in different ways. The former was successful in both republics, and in January, 1993, over 90% of all Slovak small businesses were in private hands. The privatization of large state-owned enterprises was to occur in two waves. The first wave, administered by the CSFR government, was successfully completed in the fall of 1992 with some 500 Slovak enterprises privatized through a voucher program. The second wave of large privatization is on-going and has been managed by the GOS since independence. Results have been slower and mixed, largely due to significant differences of opinion and approach between alternating Slovak governments. Nonetheless, all major actors express a commitment to some form of privatization, and progress, while not ideal, has not stopped.

Activities. The GOS is receiving U.S. assistance to undertake the second wave of privatization, which involves more than 500 companies. Financial sector assistance focuses on restructuring enterprises and creating a strong banking system, including ways to deal with enterprise debt. USAID encourages the growth of small and medium enterprises (SMEs) by upgrading business skills and addressing legal and regulatory obstacles to SME development. USAID also supports the privatization of the electrical power sector. Other activities meant to improve the private sector environment include training projects aimed at developing a rational land market, including land titling and eventual divestiture of state-owned agricultural land, and working towards the privatization of the national housing stock, presently managed by municipalities.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Transaction team to move at least 20 enterprises through the direct sales bidding process during 1995; (2) private agribusinesses increase sales volume by 30% as a result of assistance in marketing strategy development by the end of 1996; (3) land registry systems implemented in 10% of Slovak cities within two years; (4) enactment of mortgage law by January 1, 1997; and (5) 25% of municipally-owned housing units privatized by January 1, 1997.

Progress in 1993-1994. As the first donor to establish a presence in Slovakia, the United States has earned a seat at the table on the key economic issues. USAID staff developed a concept to help the GOS financial restructuring committee deal with the enterprise debt issue. This framework was adopted by the GOS and formed the basis for further discussions with the World Bank and other donors on economic reform. As a senior advisor to the Minister of Economy, a USAID-financed expert was instrumental in shaping Slovakia's industrial policy, which calls for continued emphasis on privatization as the main instrument of restructuring, attracting foreign investment, and the development of capital markets.

One objective of USAID's privatization program is fostering the integration of emerging financial institutions in Slovakia. Given the vital position of the General Credit Bank in the Slovak economy, USAID provides assistance to develop its institutional capability, with the ultimate objective of creating a strong and effective source of credit and corporate financing expertise for Slovak enterprises. Such a resource will enhance the flow of foreign and domestic capital and help accelerate the privatization process in Slovakia.

Donor Coordination. The United States has been very active in coordination with other donors such as the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development (EBRD), the East European assistance program of the European Union (EU PHARE), and to a lesser extent, the British Know-How Fund in helping Slovakia transform into a democratic market economy. Close coordination among the World Bank, EBRD, and EU is occurring in the USAID-financed reform of energy tariffs, work that is a critical input to both macroeconomic dialogues and the power

sector lending programs of the international financial institutions. USAID continues to play a leadership role in donor coordination.

Constraints. Slovakia's inability to access Western markets for some of its products is hampering the growth of certain sectors. While future EU membership may ease certain trade barriers with the Western community, Slovakia's ability to reorient exports towards Western markets is necessary to attract foreign private capital. Clear political will and direction on privatization policy is a sine-qua-non for further success.

#### **BUILDING DEMOCRACY (\$3,525,000).**

##### **SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$3,525,000).**

Slovakia has succeeded in establishing the constitutional foundation on which a democratic system rests. With basic freedoms secured, the network of institutions and political organizations within the political structure must now develop the capacity and ability to use these freedoms effectively and responsibly. The institutions are both governmental and non-governmental: the legislative, executive, and judicial branches of government as well as the political parties, the media, and the network of professional, ethnic, or regional organizations that animate and participate in a democratic political process. Some institutions and professions are progressing or adapting more rapidly than others. The judiciary, for instance, appears to be making strides in rethinking its role in a democratic system and in lobbying the Parliament for the additional legislative and regulatory guarantees which it needs to maintain its independence. The media, on the other hand, have difficulty questioning the authority of the government.

Activities. U.S. assistance is aimed at strengthening non-governmental organizations (NGOs), decentralizing power, deepening democratic attitudes and values, and encouraging a truly independent and multi-voiced media. This last objective includes efforts to privatize the state press and distribution network, broaden radio and television licensing, and expand training of journalists. Other assistance will help enable locally-elected officials to manage decentralized finances and administer city-owned properties and assets more effectively. Also, a new pilot project will be the basis of a national effort to introduce a "spirit of democracy" in primary and secondary classrooms. USAID will also continue to support an independent judiciary by working with the Association of Judges. A USAID-financed NGO is working at the local level in political party development. A USAID grant provided the Parliament with computer equipment to improve its management and effectiveness. Under a newly awarded grant, NGOs will be able to engage in a wide variety of democracy-building activities.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Local radio stations create a program and news network by 1995, increasing public access to information; (2) independent press agency exists by July 1, 1996; (3) passage of bill introducing self-governing judiciary by the end of 1996; (4) majority of city parliament plenary sessions open to the public by the end of 1995; and (5) effective parents' associations established in at least one major region by the end of the 1996-1997 academic year to effectively supervise the quality of schools.

Progress in 1993-1994. USAID-funded American Bar Association Central and Eastern Europe Legal Initiative advisors persuaded the former government and members of Parliament to propose a bill strengthening the independence of the judiciary. If this bill is passed and enacted into law, elected peer panels of judges will play key roles in appointing and disciplining judges and in managing the nation's courts. The bill establishes the principle of a self-governing judiciary.

Through USAID funding, the International Media Fund provided assistance to a center for independent journalism and in establishing the first private radio station in Central Europe. Also, by providing

desktop publishing equipment, the International Media Fund has encouraged independent newspapers to establish autonomous publishing operations.

Donor Coordination. Privately-funded NGOs, including the Soros Foundation, the Foundation for Civil Society, and Partners for Democratic Change are working to ground Slovakia firmly within the Western tradition of democracy and pluralism.

Constraints. Although the Slovak constitution provides basic freedoms, key sectors still need strengthening. While mayors are elected locally, key decisions are made at the center. Mayors' inability to deliver essential services does not encourage confidence in democratic governance. Indigenous NGOs are under-financed and lack managerial experience. Radio and television broadcasting are tightly controlled by councils responsible to Parliament, and are therefore under the control of the ruling party.

#### **Social Sector Restructuring (\$6,760,000).**

**Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$6,760,000).**

Cash transfers to individuals and households amount to 25% of GDP. At the same time, there is a growing recognition that a strategy for transformation to a market economy cannot ignore Slovakia's destitute, sick, and unemployed. U.S. technical assistance has a key role to play in a number of specific areas of social sector restructuring.

Activities. USAID, through the Urban Institute, produced a set of housing policy analyses, including a study on housing costs and affordability, and assisted with the drafting of a new Western-style condominium law. In addition, USAID is assisting the Ministry of Labor, Social Affairs and Family in drafting legislation on housing allowances to reduce the strain on the state budget stemming from such allowances, and at the same time, ensure that needy families do not suffer.

A Project HOPE grant enables a pediatric cardiovascular team from the Boston Children's Hospital to conduct training and clinical activities, together with the Bratislava Children's Hospital, in order to establish a high quality pediatric cardiology and cardiac surgery capability. USAID was invited by the interim government to provide assistance to the health sector crisis committee and to help stabilize the health financing system. USAID is providing intensive technical assistance and training to improve hospital management and health care quality at Roosevelt Hospital in Banska Bystrica (the largest hospital in Slovakia) and the regional hospital in Trnava. A conference on hospital management improvement was held in October 1994, drawing hospital administrators from every part of Slovakia. Initial steps were also taken to improve the effectiveness of the Slovak Health Management School in Bratislava in training health sector managers and policy analysts. A new partnership between a U.S. school and the Slovak health management school will be established to train managers in modern health management methods. A new activity is a pilot social sector restructuring initiative in the Detva and Hrinova area in middle Slovakia where USAID is engaged in the only major defense conversion program in the region. The project will test a range of interventions designed to create jobs to minimize the hardships connected with widespread regional unemployment, and to improve the functioning of local health and social services through a "healthy cities" initiative.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) Means-tested housing allowance system, tied to relaxation of rent controls, instituted by July 1, 1996; (2) at least 80 trained social workers working with the handicapped and poor by end of 1995; (3) pediatric cardiology: by the end of 1995, total number of operations performed since project inception reaches 650, or an average of 10 per week; (4) by the end of 1995: improve client satisfaction and shorten patient stays in 2 hospitals to serve as nationwide models; (5)



by the end of 1995, drug utilization review program and drug formulary installed in model hospital, resulting in lower unit pharmaceutical costs; (6) health management partnership agreement formally recognized and reference library for central European partner established by year end.

Progress in 1993-1994. USAID assistance guided the original framework of the 1993 Housing Privatization and Condominium Law which was voted into law by the Slovak Parliament. The law permits the sale of public housing units to tenants, outlines the framework for forming condominium associations and defines responsibilities for maintenance of the housing stock.

The Project HOPE activity reduced the number of children who must be sent abroad for heart treatment by 90% and began attracting patients from abroad. This project has increased access to pediatric cardiology services by 50%; the hospital mortality rate has been reduced from 12% to 5%; and the waiting time for surgery has decreased as well.

Significant technical advice and policy direction was provided to the Ministry of Health to develop sound hospital payment policies, redesign the administration of health insurance, improve the process of purchasing and distributing pharmaceuticals, and reduce the level of hospital indebtedness.

Donor Coordination. USAID coordinates health sector assistance with the European Union (EU) and the World Health Organization (WHO). The EU provides health training and helps the Ministry of Labor, Social Affairs and Family address unemployment issues. WHO sponsors the National Center for Health Promotion which advances disease prevention.

Constraints. The social benefit schemes to support the elderly, sick, unemployed, and disadvantaged populations are complex, costly, and inefficient. In an effort to reform and improve the system, the government combined pensions, sickness payments, health, and social care for the unemployed in one semi-autonomous agency. This has proved to be ineffective. Creation of a viable mechanism to deal with the social strains of economic transformation is an urgent problem, one that the GOS, with donor assistance as appropriate, must tackle.

#### Other Donor Resource Flows.

According to the Group of 24 statistics, the United States provided about 14% of technical assistance to the Slovak Republic. Other major donors are the European Investment Bank of the European Union, United Kingdom, Austria and Germany.

### SLOVAK REPUBLIC FY 1996 PROGRAM SUMMARY

USAID Strategic Objectives	
Economic Restructuring	\$22,180,000
Building Democracy	\$ 3,525,000
Social Sector Restructuring	\$ 6,760,000
Total	\$32,465,000

USAID Representative: Patricia Lerner

## SLOVENIA

**FY 1996 Assistance to Central and Eastern Europe Request: . . . . . \$ 4,295,000**

The most prosperous of the ex-Yugoslav republics, Slovenia has worked hard since independence in 1991 to strengthen its links with Western and Central European democracies. With a democratic system in place and economic reforms under way, Slovenia has the highest per capita gross domestic product (GDP) in Central Europe: over \$6,000. Its economy appears to be in a good position to recover, with gross national product (GNP) and productivity growth following several years of sharp retrenchment. In 1994, the GNP grew at about 4%. Growth in demand has been vigorous and helped to ease the rate of unemployment, which stands now 14.5%, down from 15.4% in 1993. The painful transition to a market-based economy has been impeded by disruptions in trade with its former Yugoslav partners, although some of this trade has been redirected to Western Europe. Slovenia became a member of the United Nations and European Bank for Reconstruction and Development in 1992, and a member of the International Monetary Fund and World Bank in the following year. Negotiations on an association agreement with the European Union began late in 1993.

### **The Development Challenge.**

Slovenia has a small and mostly export-oriented economy. It is particularly vulnerable to external market pressures and needs a well-developed and responsive financial system to raise essential capital and other financing for its exporting companies. Legislation on bankruptcy, company structure reform, and public sector reform has been adopted, but privatization has moved slowly, with only 49 of the top 300 Slovene companies currently under private ownership. The Government argues that a radical acceleration of the process could destabilize the country's fledgling money markets. According to a recent European Bank for Reconstruction and Development (EBRD) report, however, the Slovenian economy is still in a very transitional phase, with only 30% of GDP being generated by the private sector (comparatively low for the region), since major privatization has yet to occur. Unemployment at 14.5% is relatively high and would likely rise when privatizations do occur.

USAID's program includes modest levels of technical assistance, primarily in financial sector reform and privatization. Several democracy building projects are also underway, including educational exchanges and assistance to strengthen the independent media. In addition, technical assistance and short-term training support efforts to formulate and implement new Slovene telecommunications legislation. Depending on the findings of a forthcoming strategy review, USAID's limited objectives in Slovenia should be substantially achieved with FY 1996 funding.

### **ECONOMIC RESTRUCTURING (\$4,155,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed (\$4,155,000).**

The U.S. program is concentrated largely on financial sector reform and privatization, in response to a Slovene government request received in July 1993. The resulting program conforms with Slovene government priorities, as well as with the U.S. Government's desire for a small, tightly-focused program of limited scope and duration.

Activities: The USAID program in financial sector reform began in January 1994 and includes technical assistance to the Bank Supervision Department of the Bank of Slovenia (Central Bank), to the Bank Rehabilitation Agency (BRA), and to Slovenia's largest bank, Nova Ljubljanska Banka (owned by the BRA), in subjects such as bank supervision, regulation, and enforcement. At the Bank Rehabilitation Agency, USAID advisors are working in asset disposition and debt restructuring for those banks carrying heavy debt loads from major state-owned and collectively-owned enterprises. USAID work at the Nova Ljubljanska Banka (NLB) has focused on asset disposition advice to facilitate the eventual

privatization of the bank. We are also considering technical assistance to help develop NLB's, and other Slovenian banks', investment banking capabilities. Short-term U.S. Treasury advisors worked with the Ministry of Finance on development of a government securities market.

USAID is currently looking into the feasibility of working in conjunction with Slovenian banks to establish small business loan programs, with the guarantee of the U.S. Government. A team of USAID specialists will be in Slovenia in February 1995 to begin work on this initiative.

USAID assistance is helping Slovene authorities to formulate a national telecommunications policy and has helped to develop basic telecommunications legislation responsive to consumer and business needs. SEED-funded advisors from the U.S. Federal Communications Commission and National Telecommunications and Information Administration have been working with the Ministry of Transport and Communications on preparation of its long-term telecommunications strategy, a new regulatory regime, price controls, and modernization of the Slovene national monopoly, PTT Slovenia.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) 10% increase in investment fund assets for investment in privatized Slovenian companies; (2) the volume of loans to small and medium-sized businesses increases by \$6 million; (3) a banking law is passed by the end of 1995; (4) regular and orderly bank examinations are taking place for the three largest Slovenian banks; (5) five companies have been helped to work out their bad loans and launched into the privatization process by the end of 1995; and (6) the Ministry of Transportation & Telecommunications drafts and parliament enacts a telecommunications law.

Progress in 1993-1994. Program results have so far been mixed, reflecting in some part the slow progress the Slovene Government is making in privatizing its banking sector. Some solid infrastructure support has been rendered through USAID technical assistance to the Bank of Slovenia including an off-site supervision system, procedures and experience in on-site examinations, and possibly a more solid banking law. Nevertheless, the start-up costs for this project have been large, with Bank of Slovenia counterparts slow to make optimum use of advisors during the project's early period. USAID technical assistance focused on new Slovene draft telecommunications legislation and on training. USAID-sponsored telecommunications advisors and seminars resulted in key changes to the above-mentioned draft legislation.

Donor Coordination. Consultations with other donors, including the United Kingdom Know-How Fund, World Bank, European Bank for Reconstruction and Development, and European Union PHARE program, are undertaken by USAID to ensure that SEED assistance conforms with the Slovenian Government's highest priorities and is complementary with other assistance activities.

Constraints. Since independence late in 1991, Slovenia has been governed by three democratically elected coalitions in succession. Commitment to policy reform has to be balanced against prevailing public desires to maintain employment and other forms of social security traditionally afforded by the State. Financial sector reform and privatization tend to be viewed by many officials as long-term goals rather than as medium-term processes for attaining free-market reforms.

#### **BUILDING DEMOCRACY (\$140,000).**

**SO 2. Support the transition to transparent and accountable government and the empowerment of citizens through democratic political processes (\$140,000).**

Because democratic institutions are in place, USAID assistance in this sector is very limited, focussing on training and exchanges to promote American ideas and methods.

Activities: Through an inter-agency agreement with USAID, the U.S. Information Agency (USIA) conducts programs in English teaching, media training, and Books for Democracy, and is providing

small grants for training in management and economics. Both USAID and USIA also finance participant training and fellowships to U.S. academic institutions.

Indicators. The following is a provisional indicator measuring progress toward this strategic objective: (1) increased understanding and support for democratic and economic transformation, as evidenced by public opinion polls.

Progress in 1993-1994. As a result of USIA'S independent media training program, one of Slovenia's largest daily newspapers put into effect marketing recommendations and increased both its circulation and its advertising revenue. SEED funding to the International Media Fund provided equipment for establishing Slovenia's first independent television station. This arrangement also enables journalism students at the University of Ljubljana to use the station's equipment and to produce their own shows for airing.

Donor Coordination. USAID representatives meet other donors on a monthly basis to harmonize assistance activities.

Constraints: As a newly independent country, strongly committed to consolidating its independence and democratic institutions, Slovenia can be expected to move prudently, balancing competing institution-building demands in its process of transforming formerly regional bodies designed for local governance into national institutions.

**Other Donor Resource Flows.**

According to the Group of 24 statistics, the United States has provided about 9% of technical assistance to Slovenia. Other major donors are Austria, Germany, Netherlands, and the United Kingdom.

**SLOVENIA  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 4,155,000
Building Democracy	\$ 140,000
Social Sector Restructuring	\$ 0
Total	\$ 4,295,000

USAID Country Representative: Mary F. Likar

## TAJIKISTAN

FY 1996 Assistance to The NIS Request: ..... \$ 7,000,000

Tajikistan is the sole country among the five Central Asian successor states to the Soviet Union where underlying ethnic, regional, economic, and ideological strains have broken out into open warfare and major population displacements. At the request of the local government, Russia provides troops to guard the southern Tajikistan boundary against incursions from Afghanistan. Unlike most other groups in the region, ethnic Tajiks are a Persian, rather than a Turkic, people. Stalinist-era demarcations, which are now international boundaries, conform poorly to the distribution of Tajik peoples. Geographic isolation, dependence on food and industrial supplies from beyond its borders, the elimination of most subsidies from Moscow, and the collapse of former trading relationships combine to add to continuing concerns about instability, which has important implications for other states in the region.

### The Development Challenge.

The main development challenge remains to address immediate humanitarian concerns while at the same time laying the foundation for longer-term development. The majority of U.S. and other donor assistance is channelled to vulnerable groups and distressed regions. Limited progress has been made in terms of inter-factional talks, an end to open warfare, and a general return of displaced persons. While there is no guarantee that ongoing peace negotiations will be completed soon, reconciliation has taken place in some areas, and there are opportunities for targeted assistance to have a welcome and positive impact. The assistance program will continue to support and work with known reformers as the country undergoes transition to a more democratic and economically viable and peaceful state.

### Strategic Objectives (SOs).

USAID is pursuing the following strategic objectives in Tajikistan.

#### ECONOMIC RESTRUCTURING (\$1,000,000).

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$1,000,000).**

As the peace process moves forward in Tajikistan, increasing focus is being given to the country's long-term development needs. Training efforts in the area of economic restructuring have been useful, but now there is a need to follow that up with a macroeconomic policy advisor who can provide follow-through and mentoring for returned participants, coordinate with other donors and act as a catalyst for economic reform.

Activities. USAID will provide a long-term macroeconomic policy advisor to the office of the Prime Minister, supplemented by short-term technical assistance and training in key areas related to fiscal and financial reform. FY 1996 activities may also include assistance in developing a basic privatization strategy to support the broader macroeconomic effort.

Indicators. Indicators for measuring progress toward this strategic objective are still being developed, but are likely to include the following: (1) introduction of a new currency; (2) passage of laws and regulations in key areas related to macroeconomic reform; (3) evidence of financial stabilization.

Progress. A short-term economic advisor provided in 1994 was well received and produced a lengthy report outlining the need for further assistance in a number of key areas. Further follow-up has not been possible thus far, although participants in USAID's exchanges and training program do represent a core constituency upon which further work in the macroeconomic area can build. Tajikistan is the

only country in the region not to have introduced its own currency, leaving its own monetary policy firmly in Moscow's hands.

Donor Coordination. USAID assistance will be coordinated with the International Monetary Fund (IMF) and the World Bank, which are the major donors in economic reform in Tajikistan.

Constraints. The civil war and its aftermath have devastated Tajikistan's economy which has limited resources even in the best of times. The combination of war, continued political uncertainty, and an inability to take important economic reform measures all contribute to the enormous economic difficulties Tajikistan now faces.

#### **BUILDING DEMOCRACY (\$1,000,000).**

##### **SO 2. Establish a means for protecting basic human rights (\$1,000,000).**

The artificial division of the historic Uzbek and Tajik territory in 1924 into two ethnically based republics left Tajikistan with no clear national center. Consequently, distinct sub-national identities were reinforced, undermining development of a national Tajik identity. Other political, social and religious factors have compounded the difficulties of ensuring equitable human rights for all. The lack of established, consistent and enforceable laws has caused additional problems.

On November 6, 1994, a new constitution was adopted and a new president elected. The ongoing civil war prevented some political factions from participating in drafting the new constitution, however, and a successful conclusion of peace talks may result in calls for constitutional revisions.

A new parliament, scheduled to be elected in 1995, faces the responsibility of forging a sustainable consensus on national policy. USAID is prepared to respond quickly, following the elections, by providing technical assistance to Tajikistan in building a stable and workable political order which can accommodate all governing factions.

Activities. Human rights assistance will focus on the constitution, human rights legislation, and election laws. Several small human rights legal resource centers are planned for Dushanbe and elsewhere to provide information to both the public and policy makers, and to serve as sites for seminars and other events. A small grants program for nongovernmental organizations (NGOs) will support groups such as the Association of Young Lawyers, the Children's Fund, and NGOs focused on inter-ethnic relations. Following parliamentary elections in 1995, new initiatives will be developed to support the parliament as a check on executive branch power. If support for revising the constitution is requested in the context of peace negotiations, USAID will respond with short-term advisors and training related to constitutional development.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) election procedures meet acceptable international standards; (2) free and fair elections held at all levels of government; (3) number of NGOs working on human rights abuse and anti-corruption investigatory functions increased; (4) percentage of citizens aware of and able to access human rights information programs increases.

Progress in 1993-1994. Progress toward this objective has been limited. The International Foundation for Electoral Systems, under a grant from USAID and at the request of the government of Tajikistan, provided pre-election assistance and election monitoring. This was undertaken somewhat reluctantly, however, as the presumption was that the elections would be flawed, a presumption that was borne out by all observers.

Donor Coordination. USAID coordinates its activities with those of other groups such as the Organization for Security and Cooperation in Europe (OSCE), the International Committee of the Red

Cross (ICRC), the United Nations High Commission on Refugees (UNHCR) and others which are interested in promoting human rights in Tajikistan. Parliamentary and constitution development activities will be coordinated with interested donors.

Constraints. There is no history or experience for democratic elections in Tajikistan. The political conflict is compounded by human rights abuses and exacerbated by inter-ethnic tensions.

#### **HUMANITARIAN/SOCIAL SECTOR RESTRUCTURING (\$ 5,000,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$5,000,000).**

(A) Emergency and humanitarian response.

USAID programs focus mainly on responding to emergency and humanitarian needs stemming from the civil war and its aftermath. The need for food and medical emergency information is great in Tajikistan, particularly in the south. Until the crisis situation is resolved, serious long-term programs aimed at social sector reform cannot be undertaken.

Activities. USAID funds an array of emergency relief activities involving international organizations and a number of U.S. private voluntary organizations (PVOs). Activities focus especially on the provision of food.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) food and other emergency supplies successfully delivered to targeted beneficiaries in a timely manner.

Progress in 1993-1994. Outside observers confirm significant progress in areas most affected by the civil war. In particular, refugees are returning, and reconciliation is occurring, at a local level. In the absence of a USAID-funded humanitarian relief program, many more refugees would almost certainly have remained in Afghanistan, and the process of reconciliation would have advanced much more slowly.

Donor Coordination. USAID works closely with international emergency relief organizations, including UNHCR and ICRC. All groups involved in the relief effort meet weekly under United Nations auspices to review the security situation and coordinate implementation.

Constraints. Uncertainty over the peace process and the unpredictability of possible future fighting, make humanitarian and relief programs of this kind difficult.

(B) Improving the efficiency and quality of health services.

Training and limited technical assistance is being provided, with a view toward addressing Tajikistan's enormous long-term problems in the health sector.

Activities. USAID is supporting local and U.S.-based training in health-care finance, pharmaceutical management, epidemiology and disease surveillance, and women's health and family planning to begin addressing longer-term health system needs. A partnership with an American hospital will soon be established which will focus on improving maternal and pediatric care. The Centers for Disease Control and Prevention will be providing technical assistance to the government to improve public health surveillance systems and response to disease outbreak. Technical assistance will be provided to support sustainable childhood immunization services.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) improved health and clinical information systems developed at the national and oblast levels for health care planning use; (2) more effective responses of the public health system to outbreaks of specific diseases; (3) contraceptive prevalence rate increased; and (4) increased number of local-level health care facilities using, on a consistent basis, quality assurance procedures and systems.

Progress in 1993-1994. Participants in USAID-sponsored training programs have since been active in drafting sections of a new health plan. USAID funding ensured high-level participation at the International Conference on Population and Development, held in October 1994 in Cairo. USAID-supported training programs have helped prepare the groundwork for in-country technical assistance in health care reform and the modernization of reproductive health practices to reduce the high levels of maternal mortality and reduce abortion prevalence. Participants in a course in lactation management have begun holding in-country courses for physicians.

Donor Coordination. USAID is by far the most significant bilateral donor in Tajikistan. Ongoing activities are coordinated with other donors, especially as efforts are made to ensure that emergency health-related programs begin to address more long-term concerns. USAID has played a predominant role in establishing the Interagency Immunization Coordinating Committee which is the framework for coordination of donor support in immunization delivery and disease control activities in the New Independent States.

Constraints. Uncertainty over the pace of the peace process and resolution of the internal security situation continues to cause problems. The enormous devastation caused by the civil war will continue to impede the effective delivery of social services even after the fighting is over.

**Other Donor Resource Flows.**

According to statistics from the Development Assistance Committee of the Organization for Economic Cooperation and Development, the United States provided about 55% of all official development assistance to Tajikistan in 1993. Other major donors are the World Food Program (United Nations), the Economic Development Fund of the European Union, Netherlands, and Germany.

**TAJIKISTAN  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 1,000,000
Building Democracy	\$ 1,000,000
Social Sector Restructuring	\$ 5,000,000
Total	\$ 7,000,000

USAID Regional Mission Director: Craig Buck



## TURKEY

**FY 1996 Economic Support Fund Request: . . . . . \$100,000,000**  
**FY 1996 Development Assistance Fund Request: . . . . . \$5,400,000**

Turkey is a close and valued ally of the United States. It occupies a strategic location between Eastern Europe, the Middle East and the New Independent States of the former Soviet Union, and is a key member of the North Atlantic Treaty Organization (NATO). The United States has an interest in encouraging and supporting the growth and stability of a western-oriented Turkey following sound, free-market and democratic policies.

### **The Development Challenge.**

The United States has not maintained a full-scale bilateral program in Turkey since the mid-1970s. The country achieved an advanced standing in the developing world at that time and has continued to modernize. Nevertheless, the economic situation, while at times experiencing dramatic growth, has been unstable, rife with internal structural problems resulting from state intervention and bloated government bureaucracies. Economic problems are further exacerbated by excessive population growth, fueled by heavy rural to urban migration and relatively low prevalence of modern contraceptive usage. In recent years, the country has faced the challenges of the Persian Gulf War, and the repercussions resulting from economic sanctions and the humanitarian operation in neighboring Northern Iraq. Turkey also is encountering a separatist and terrorist campaign within the country. There is continued concern about the human rights situation in the country.

### **Strategic Objectives (SOs).**

USAID pursues two strategic objectives. In addition, USAID will finance an activity which addresses human rights problems, such as victims of torture.

### **ECONOMIC GROWTH (\$100,000,000)**

#### **SO 1. To encourage economic growth and restructuring (\$100,000,000).**

Turkey is a key ally and plays an important role in the region. While peace prospects have improved in some parts of the Middle East, hot spots are evident throughout the Caucasus, Central Asia, Cyprus, Iraq and Iran. In addition, the Government of Turkey (GOT) must take more drastic steps to reform the economy, for example, through full-scale privatization and reduced government expenditures. These significant changes in the economic system require international financial support to ease the burden.

Activities. USAID provides an Economic Support Fund (ESF) cash transfer to support the GOT's economy.

Indicators. The United States monitors progress of Turkey's economic and political reform program. The provision of funding has not been explicitly linked to an economic reform agenda. Therefore, no specific indicators have been established.

Progress in 1993-1994. Turkey has forged stronger relations with Israel and has become a more important partner in the peace process. This relationship with Israel has burgeoned into plans to provide technical assistance and training to Central Asian republics. The GOT continues to be a linchpin in the humanitarian operation in northern Iraq. The government undertook its most extensive economic reform effort in recent years. While achieving initial success in reducing inflation, increasing exports and liberating some segments of the economy, the overall program floundered in the fall of 1994. This resulted from the lack of real structural reform and the inability to maintain austerity

targets.

Other Donors. The International Monetary Fund (IMF) and World Bank have provided standby and project loans to the GOT to encourage and reward major economic reform measures. The United States consults with all donors to assure each conveys similar messages, particularly on the reform agenda.

Constraints. The instability surrounding Turkey and the internal civil strife distract the government from major economic reforms. Growing religious conservatism could make reform more difficult.

#### **STABILIZING POPULATION GROWTH (\$5,400,000).**

**SO 2. To increase availability and effective use of quality family planning and reproductive health services; and to improve Turkey's self-reliance in family planning and reproductive health by enhancing the public and private sector ability to meet consumer demand for these services independent of USAID support.**

Population issues are developing into a major priority of the GOT, given that its current population of almost 61 million is expected to double by the year 2025. Surveys show that Turkish couples use less reliable traditional methods. Modern contraceptive prevalence, while increasing, is just approaching 35%, which is below countries such as Bangladesh and Egypt. The government has not taken an active role in implementing policies supporting modernization of family planning, nor has it provided sufficient funding. USAID donates approximately 90% of all GOT contraceptive commodities. However, in FY 1995, USAID begins implementing a 5-year phase-down strategy to promote Turkish private and public resources taking its place.

Activities. The recent U.S.-approved population strategy for Turkey for 1995-1999 includes the following activities: (1) USAID will strengthen the GOT policy environment, forge ties among private firms, and facilitate NGO participation; (2) USAID projects will train counselors and care providers to improve the quality of services and depth of knowledge; (3) USAID will seek to expand access to services by integrating them into existing health care delivery networks; and (4) on a decreasing scale, USAID will provide funding for contraceptive commodities.

Indicators. The following indicators measure achievement of this objective: (1) implementation of a national family planning program; (2) modern contraceptive prevalence up to 45% in five years; (3) better mix of methods available; and (4) the private sector becomes the source for 75% of non-clinical modern contraceptives.

Progress in 1993-1994. The program, implemented by a number of U.S. cooperating agencies, saw many gains. Family planning training has been integrated into eight university teaching programs, midwifery and nursing schools, as well as the Ministry of Health in-service family planning sites. The Ministry adopted the first-ever national family planning guidelines and operates model family planning clinics throughout the country. The Ministry of Health and the social security organization (an insured health provider) agreed to begin purchasing contraceptives. The United States is working with the cooperating agencies to foment more synergistic implementation and sustainable impacts. The newly adopted strategy, which includes a five-year phase-down approach, will provide important guidance and impetus for results.

Donor Coordination. The United Nations Fund for Population Activities and the International Planned Parenthood Foundation support activities in less developed areas and with indigenous organizations respectively.

Constraints. Instability along several borders, and an unstable economy undermine efforts to encourage the GOT and the private sector to focus on family planning. Opposition from religious

conservatives could pose problems in rural and marginal urban areas.

**TURKEY  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Growth	\$100,000,000
Stabilizing Population Growth	\$5,400,000
Total	\$105,400,000

USAID Office Director, Office of European Country Affairs: Peter Orr

## TURKMENISTAN

**FY 1996 Assistance to the NIS Request: . . . . . \$ 4,000,000**

Turkmenistan remains a resolutely one-party state, with power invested in an old-line communist, turned nationalist, leader. With a small population supported by rich gas fields, additional revenue from cotton, and petroleum in reserve, the government has perceived few compelling reasons to undertake the wrenching economic reforms necessary to become a market democracy. The principal problem with Turkmenistan's economic strategy is that gas pipelines lead only to other former Soviet states which have largely ceased payment for Turkmenistan's gas. Alternative openings to Iran for transport and access to wider markets is popular neither with the government of Turkmenistan nor with Western interests. Such an opening may eventually prove necessary but is not likely to forestall an economic slide and, with it, pressures for political change.

U.S. interests in Turkmenistan include encouraging democratic and market reform by exposing policy makers, and potential reformers in particular, to the wider commercial and political world. U.S. interests are also served by introducing U.S. technology into Turkmenistan.

### **The Development Challenge.**

Turkmenistan is a country with vast natural resources and a small population. Its financial stability has helped to ensure a relatively easy transition from the Soviet economy. Fearful that its poorer, more militant neighbors may seek to appropriate its resources, Turkmenistan has sought to strengthen bilateral ties with Turkey, Iran, Russia, and other Central Asian Republics, as well as with Western countries. This "internationalist" posture opens avenues for foreign investment.

Turkmenistan's leadership demonstrates firm authoritarian control, with little evidence of legal reform, formation of independent social and political organization, establishment of a free press, or creation of an independent parliament and judiciary. Strong diplomatic backing will be needed to make progress in the protection of basic human rights, and in facilitating the emergence of grassroots social and political organizations. The new legislature does include jurists who have demonstrated a commitment to reform. Turkmenistan has virtually none of the political unrest found in many other NIS republics. Cushioned by its natural gas reserves, Turkmenistan has thus far not experienced the sharp decline in living standards characteristic of so much of the rest of the region. Nonetheless, the effects of the Aral Sea disaster and lack of progress in key social sectors such as health, point to areas where USAID involvement can make a difference. U.S. assistance is also intended to keep the door open to change and influence from the outside world.

### **Strategic Objectives (SOs).<sup>1</sup>**

USAID is pursuing strategic objectives in Turkmenistan related to democratization and social sector restructuring.

#### **BUILDING DEMOCRACY (\$ 2,000,000).**

**SO 1. Improve the understanding of and demand for human rights; establish and build the capacity of nongovernmental organizations that focus on public interest issues (\$2,000,000).**

There is little indication that the Government of Turkmenistan will show receptivity to any social or political reform in the near future. A long-range view, with readiness to meet opportunities for improvement of human rights and provide technical assistance, must be taken.

Indigenous NGOs can potentially provide an important avenue of information and opportunity for citizens to more actively and effectively participate in the political and economic life of their country,

but few NGOs have been organized in Turkmenistan. Particular opportunities for NGO development may arise out of new Peace Corps initiatives, such as the recent establishment of women-in-development groups.

Activities. USAID training and related activities concentrate on building a new generation interested in democratic values. USAID will work to encourage development of the legal infrastructure for the registration and operation of nongovernmental organizations (NGOs). A regional small grants program will take special notice of opportunities to help establish grassroots NGOs in Turkmenistan, especially in the area of human rights. Support will be provided through organizational advice and assistance. Turkmenistan's participation in regional human rights conferences and in training seminars is also a priority.

Indicators. The following is a provisional indicator measuring progress toward this strategic objective: (1) increased number of NGOs involved with public interest issues.

Progress in 1993-1994. The USAID program has helped expose officials from Turkmenistan to Western views attached to human rights and other democratization issues. Substantial progress in this area has not been achieved to date. The NGO sector is at a very early stage of development in Turkmenistan. USAID-supported NGO activities are just getting under way.

Donor Coordination: USAID is the only donor involved in democratization activities in Turkmenistan.

Constraints. Change is slow in coming to Turkmenistan, and large segments of the old Soviet system remain intact. The very notion of an NGO is an alien concept. The Government of Turkmenistan has not yet demonstrated a commitment to guaranteeing human rights for its citizens. Without political will, human rights improvements will be difficult to achieve.

## **SOCIAL SECTOR RESTRUCTURING (\$2,000,000).**

**SO 2. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest sectors of the population during the transition period (\$2,000,000).**

Modest activity related to health and family planning is exposing professionals in Turkmenistan to new approaches and new ways of doing business. Although seemingly modest, this represents an important development in a country which has long been isolated from the rest of the world. The Turkmenistan segment of the Aral Sea program also is substantial, involving both a local demonstration project and involvement in regional policy-related activities.

Activities. The American International Health Alliance (AIHA) hospital partnership has provided a welcome window to a wider world. Turkmenistan has been involved in regional activities related to family planning and health financing. Due to budget limitations, U. S. health care finance, partnership and family planning activities will be phased out. Turkmenistan's share of the Aral Sea program is significant and includes installation of new technology which should provide potable water for nearly 100,000 local people. The Centers for Disease Control and Prevention will be providing technical assistance to the government to improve public health surveillance systems and response to disease outbreaks. Technical assistance will be provided to support sustainable childhood immunization services.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) increased number of households with access to potable water in selected cities in the Aral Sea region; (2) decreased volume of water used for irrigation in the Aral Sea region; (3) toxic substance monitoring system in selected Aral Sea areas established; and (4) improved health surveillance system and response to disease outbreaks.

Progress in 1993-1994. Access to potable drinking water remains a problem in areas of Turkmenistan. The USAID-assisted Aral Sea program is well under way, with equipment for potable water systems nearly in place.

Donor Coordination. Donor activity in Turkmenistan is limited, but USAID shares details of its program with other donors whenever possible. USAID has coordinated closely with the Japanese, for example, in strengthening immunization and cold chain capability in Turkmenistan. USAID has played a predominant role in establishing the Interagency Immunization Coordinating Committee, which coordinates donor support in immunization delivery and disease control activities in the NIS.

Constraints. As noted, few changes have been made since independence. New technology is welcome, but more decentralized and market-based approaches are difficult to explain, given long years of isolation from more accepted international practices.

**Other Donor Resource Flows.**

Statistics on donor resource flows in Turkmenistan are not available from the Group of 24 or the Development Assistance Committee of the Organization for Economic Cooperation and Security.

**TURKMENISTAN  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 0
Building Democracy	\$ 2,000,000
Social Sector Restructuring	\$ 2,000,000
Total	\$ 4,000,000

USAID Regional Mission Director: Craig Buck

## UKRAINE

**FY 1996 Assistance to the NIS: . . . . . \$ 159,000,000**

After having made little progress toward economic and political transformation during the years since independence, Ukraine has now begun the process of serious structural reform, with the strong and coordinated support of multilateral and bilateral donors. The United States has been a leader in encouraging Ukraine's transition to a market-oriented democracy, given the country's strategic location between Russia and the rest of Eastern Europe and the enormous productive potential of this large and populous land. U.S. national security interests are served by strong ties with Ukraine, one of four of the new independent states (NIS) of the former Soviet Union to inherit nuclear weapons. In 1994 Ukraine continued to transfer its nuclear weapons to Russia and ratified the Nuclear Non-Proliferation Treaty.

### **The Development Challenge.**

With abundant natural and human resources, the challenges for Ukraine are to retool its economy to respond to market forces, create a new social safety net, and foster civil institutions appropriate to the requirements of a democracy. Putting off critical reform has left Ukraine with all the problems associated with a failed economy, without any of the gains it would now be accruing if reforms had been implemented earlier. Production inefficiencies are compounded by the breakdown of traditional management, disrupted trade patterns, and outdated skills. With output down, immense fuel import requirements have overwhelmed dwindling government revenues, exacerbating Ukraine's balance-of-payments problems and making the prospects for early closure of the outdated Chernobyl nuclear power plant highly unlikely. The impact on the Ukrainian people has been severe as they face lower levels of employment, income, social services and general standard of living, leaving them with diminished ability to maintain their basic health and well-being.

What is critical for Ukraine's future is the ability of the Ukrainian Government to carry out the ambitious reform program it has embarked upon and the willingness of the donors to continue to support the implementation of these reforms. We have already seen early indications of progress on a number of fronts, including privatization, land reform and energy sector reform, with a number of other programs beginning to reap promising results. USAID plans to continue its leadership role in encouraging and supporting these reforms with the objective of enabling the Ukrainian Government and citizenry to create an environment in which a market economy and democratic political system can flourish.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives in Ukraine:

#### **ECONOMIC RESTRUCTURING (\$126,000,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$126,000,000).**

Ukraine is faced with the daunting task of transforming its moribund command economy into one that is competitive and market-oriented. During this critical transition period, USAID is assisting Ukraine to put in place a sound framework for business and investment by strengthening the institutions that create a market economy. The following USAID activities target strategic areas to advance the viability of the emerging system and ensure its sustainability.

Activities. The following activities are underway or planned:

(a) **Privatization and Capital Markets.** USAID is working at both the local and national levels to assist Ukraine in transferring state enterprises, land and real estate to private ownership, and to improve the understanding of how markets function. This includes: (1) helping to identify and implement effective strategies to promote popular participation and interest in privatization; (2) technical assistance in structuring and implementing the mass privatization program; (3) support for the development of institutions, legislation, and market structures needed for competitive capital, land and real estate markets that will drive the process of economic restructuring; (4) wide dissemination of information on market reform and training on economic issues for key individuals; (5) assistance with pilot market activities such as land auctions and tenders, pilot condominium housing ownership, and regulatory activities such as zoning, land titling, recording and registration systems; and (6) help in competitive contracting of municipal services to private vendors. Housing and communal services privatization activities constitute an integrated program involving demonstrations and policy development dealing with land, housing, real estate and related services at the local level.

(b) **Financial Sector Reform.** USAID's program concentrates on enhancing Ukrainian capacity to develop a viable financial sector, including the establishment of a banker training institute and the provision of equipment and technical assistance to strengthen Central Bank operations. In municipal finance, USAID is introducing modern, computer-based, financial management systems and practices. Also, new USAID work will soon begin with communal services (public utilities) to establish real-cost pricing, enterprise-based budgeting and accounting practices, and management efficiencies.

(c) **Energy and Environment.** In conjunction with the Group of Seven Energy Action Plan, USAID is providing technical assistance to Ukraine to support energy sector restructuring, increase energy efficiency and reliability, and improve domestic fuel resources and nuclear safety. USAID activities specifically support: (1) the restructuring of the power sector, including the development of a legal, regulatory and tariff framework and the corporatization of thermal power generation companies; (2) the introduction of low-cost technology investments for Kiev power-heat plant #5; (3) energy audits and efficiency equipment for industry plants, buildings, and power-heat plants; (4) the demonstration of electricity demand-side management; (5) assistance leading to improved utilization of domestic energy resources; and (6) an improvement in the operations and safety of nuclear power plants. In the environmental sector, USAID is helping Ukraine to restructure its environmental management to meet the needs of a market democracy, including pilot technology demonstration projects, water resource management, strengthening nongovernmental organization (NGO), public information and participation programs, and improving environmental information for decision-making.

(d) **New Business Development and Support for Investment.** Through programs now getting underway, USAID will provide assistance for the development of regional business support centers and an information network to foster the emergence of private business structures which can operate successfully in a competitive domestic and international market environment. USAID will assist with mass production and dissemination of training materials on new business start-up and operation. USAID also will fund local partnerships of government and business entities working on policy and regulatory changes favorable to business and investment. The USAID-funded American business center will open operations in Kiev in the spring of 1995, and will serve as a hub for contacts between American and Ukrainian businesses. Related to these activities is the recently established West NIS Enterprise Fund to invest in or loan to new and privatized Ukrainian businesses and joint ventures with American firms. A number of other activities, such as the Farmer-to-Farmer program, Peace Corps, Eurasia Foundation, the International Executive Service Corps and the agribusiness partnership program are assisting Ukrainians in business development, many of them with American expertise provided on a voluntary basis.

(e) To support new commitment to reform, USAID will provide funds for structural reform support to enable the United States to support, on short notice, the efforts of countries embarking on programs of comprehensive economic restructuring. The USAID-funded assistance will likely take the form of commodities, commodity transport, and trade or investment credits that can be counted toward filling



balance-of-payments gaps as these new reformers come to terms with the IMF or World Bank on structural adjustment loans. United States contributions to this process are critical in influencing other bilateral donors to participate and can greatly influence the commitment of NIS republics to embark on comprehensive economic reform. Ukraine is among the countries most likely to qualify for these funds.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) privatization of 3000 medium and large-scale enterprises by the end of 1995; (2) privatization of 50% of small-scale businesses by the end of 1995; (3) 60% of citizens nationwide demonstrate knowledge about the basic principles of open market economies; and (4) two self regulatory financial organizations are established and operating; (5) a power generation wholesale tariff market system is in place by late 1995 and generation purchase prices are at a competitive level by mid-1996; (6) a national energy regulatory commission is established by late 1995, and is trained and fully functioning by early 1996; (7) enforcement of nuclear safety standards is demonstrated consistently by the end of 1996; and (8) establishment of clear legal rights to private land and housing ownership and establishment of regular programs of land disposition, privatization of management and condominium ownership in at least four major representative cities.

#### Progress in 1993-1994.

(a) Privatization and Capital Markets. The Government of Ukraine (GOU) has finally made the commitment to move forward with the privatization of 8,000 medium and large enterprises, as well as essentially all small-scale enterprises by the end of 1995. USAID helped to pave the way for this breakthrough by encouraging reform through policy dialogue, assisting in the development of a framework for mass privatization, printing and delivering about 50 million privatization certificates for citizens of Ukraine to participate in this process, supporting a public education campaign, and providing a number of training programs to educate Ukrainian officials and the public about privatization and market reform. As the process progresses, USAID will be working to help ensure a smooth and efficient transition to private ownership of business, as well as to implement critical post-privatization assistance to promote the commercial viability of enterprises.

In land privatization, USAID has been party to events of historic significance as successful land auctions have been held in four cities, with a growing number of additional cities expressing interest. Auctions encourage efficient use of land based on market principles, promote private investment in land and creation of a private real estate market, generate revenues for social and infrastructure purposes, and eliminate corruption in the land allocation process. USAID advisors working with the city of Chernigiv helped develop a city land use zoning system which represents a major break with central planning practices for urban real estate. On a related front, USAID assistance to a government land task force has resulted in the near completion of a new set of draft laws to establish a comprehensive right to private property in land. In housing privatization, the draft national law on private condominium ownership for multi-unit buildings was completed. The first seven buildings were converted to private condominium ownership in the city of Kharkiv and included ownership control of both residential and commercial space.

Regarding the privatization of municipal services, up to 12 cities and some oblasts are undertaking competitive award of bus routes to private vendors who will use private transport vehicles to service new routes or under-served traditional routes, charging market prices. Three cities have undertaken competitive award of housing maintenance contracts to the private sector. U.S. study tours completed in 1994 have had great success in furthering municipal officials' understanding of market-economy principles and institutions.

(b) Financial Sector Reform. The USAID-funded National Center for Training of Bank Personnel, the first of its kind in the NIS, opened in January 1994 with a curriculum of 19 advanced courses in commercial banking and specialized subjects for the Central Bank. By the end of the year, professional

training had been provided to nearly 900 bankers from more than 90 banks throughout Ukraine. In addition, USAID has provided advisors to work with the Bank to establish policy analysis and research capability, and with the Ministry of Foreign Economic Relations to assist Ukraine with accession to the World Trade Organization (WTO). On local government issues, USAID advisors worked with the State Committee on Housing and Municipal Economy to establish a schedule of price increases for communal services approaching costs of production.

(c) Energy and Environment. USAID financed the technical assistance that led to the planning and funding of power sector restructuring formally agreed to during President Kuchma's state visit to Washington in November 1994. A \$72 million energy sector grant was provided to the government to support broad economic and energy sector reform. The Ukrainian government established an independent National Energy Regulation Commission and developed a mechanism for adjusting electricity tariffs. Progress has been made in energy efficiency activities: (1) energy audits have been launched and energy efficiency equipment provided to five major industrial enterprises and power-heat plants; (2) low-cost technology investments have been introduced at Kiev power plant #5 with annual savings of more than \$250,000 in fuel costs; and (3) USAID-financed ion-exchange resins and equipment have served to enhance the reliability, efficiency and environmental soundness of the plant's water treatment facility. Some of the USAID-funded local environmental initiatives have produced nationwide results. For instance, a grant to the Union of Salvation from Chernobyl resulted in a community network of over 700 volunteers to measure radiation in water, soil and food products, and the establishment of 57 independent operational monitoring stations across the country. In the environment sector, work is proceeding to complete a pipeline which will provide potable water to over 50,000 Tatars in the Crimea and to improve water and air quality in selected regions of the Ukraine.

(d) New Business Assistance. The West NIS Enterprise Fund recently inaugurated programs for direct investment and small business lending operations in New York and Kiev. The Fund is proceeding to set up storefront operations for small and micro-lending and is working with other institutions to ensure maximum impact. The Fund's direct investment program is targeting three sectors: food processing and agribusiness, construction materials, and furniture production. Over 100 proposals for investment and lending have already come in and are being assessed. Progress has continued on the American Business Center in Kiev which will open this spring, serving as a hub for contacts between American and Ukrainian businesses.

Now well underway, the agribusiness partnership program has begun to reap benefits. For example, work done under the Monsanto-Beshevsky partnership has led the oblast government to take the lead in enlarging this input supply operation to include all farms in the area. Investments by Cargill are leading to improved quality of seed production which will result in better yields of Ukrainian food crops such as sunflower seeds and corn.

Donor Coordination. Negotiations with the GOU over the structure and extent of Ukraine's mass privatization program have evidenced unusually close and successful coordination between USAID and the World Bank. In early 1994, the two organizations developed a common position on reforms needed to assure success of a program that, as originally conceived and designed by the Ukrainians, was unwieldy and unattractive to the public. The unwillingness of the GOU to change the program placed a premium on collaboration between donors to effect change. USAID and the Bank jointly negotiated through the year for introduction of a paper certificate, and for much simplified and streamlined procedures for the preparation of enterprises, as well as auction processing. These efforts culminated, at the end of 1994, in the GOU agreeing with the proposed reforms. The immediate result will be the launching of mass privatization auctions by February 1995, with a target of 8,000 enterprises privatized by the end of the year.

USAID provided grants to Ukraine to fill the balance-of-payments gap in late 1994 which helped to pave the way for the International Monetary Fund's (IMF) systemic transformation loans to Ukraine. Furthermore, USAID and the World Bank have coordinated closely and effectively in supporting

comprehensive energy sector reform in Ukraine. By stipulating the same conditions before disbursement of respective assistance, the Ukrainian Government's decision to establish price reforms and a regulatory commission, that will support and enhance the effort to corporatize power generation, was reinforced. Other donors, including European Bank for Reconstruction and Development (EBRD), European Union (EU), and United Kingdom (UK), also participated in the collaborative effort.

USAID has concluded discussions with the World Bank leading to collaboration during 1995 in the design of a municipal revolving loan for housing. This program would allow local governments to fund the construction of much needed new housing as well as the rehabilitation of existing housing, with a parallel goal of creating a competitive market environment for private developers.

**Constraints.** Without changes in tax laws and administration, there is limited opportunity for development of a strong and stable domestic private business sector. The current tax laws represent a heavy burden, change frequently, and are confusing, contradictory and inconsistent in their administration. They offer few incentives for the development of small and medium-sized businesses, and there is high incidence of tax and other regulatory avoidance. Furthermore, unless the reform efforts begun at the macroeconomic level continue, and some basic changes are made in the policies and laws affecting banking, development of the financial sector will be slow and bankers' training will have limited immediate impact on the effectiveness of financial institutions in Ukraine.

#### **BUILDING DEMOCRACY (\$25,000,000).**

**SO 2. Support the transition to democratic political systems, transparent and accountable governance and the empowerment of indigenous civic and economic organizations that ensure broad-based participation in economic and political life (\$25,000,000).**

The development of democracy in Ukraine is most easily seen in terms of elections. In 1994, Ukraine held its first post-Soviet elections, both parliamentary and presidential. Procedural difficulties left some 50 seats unfilled in the parliament. Nonetheless, the outcome of the voting clearly mirrored regional differences and brought with it a period of change. The new President has become a major force for economic reform, and he continues to consolidate his power in a very strong presidency. Since independence, the Ukrainian parliament has worked unsuccessfully on the preparation of a new constitution to replace the 1978 Constitution of the Ukrainian Soviet Socialist Republic, by which Ukrainians continue to be governed. The President and parliament established a new constitutional commission in October 1994, bringing with it a new impetus for agreement on the underlying tenets of Ukrainian democracy.

**Activities.** To foster the development of a democratic society with broad-based participation in political and economic life, USAID assistance is geared toward helping: (1) increase public participation in the political process, particularly by assisting political and governing individuals to be more efficient, responsive and accountable; (2) develop the appropriate legal framework that a market-oriented democracy needs to function, including an independent judiciary; and (3) strengthen the capacity of Ukrainian NGOs. Complementary to these activities are training programs targeting high school, undergraduate and graduate students, teachers and faculty, government officials, entrepreneurs and other professionals. In FY 1995, USAID will embark upon a new effort to support law enforcement programs and to assist criminal justice reform, including helping Ukraine to combat organized crime, fight financial crime, interdict the flow of narcotics, and reform the criminal justice system.

**Indicators.** The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) legislation is enacted by December 1995 establishing the process, timing and independent management system for elections; (2) twenty-five NGOs involved in influencing public policy are organized and operating by December 1995; (3) new civil and commercial codes are enacted by the parliament by January 1996; (4) new legal framework in place to ensure independence of the judiciary by December 1995; and (5) newly formed Association of Cities involved in proposing and

lobbying for legislation to secure expanded local level authority.

**Progress in 1993-1994.** Working through the International Foundation for Electoral Systems, USAID provided assistance to Ukraine's electoral commission to ensure broad participation in free and fair parliamentary and presidential elections, both of which were held in 1994. Evidence of success can be seen in the fact that 75% of voters nationwide participated in the March parliamentary elections and all 450 electoral districts cleared the 50% participation threshold. Prior to the elections, the National Democratic Institute worked extensively with political party leaders and women's, students' and environmental groups. One of the fruits of this activity is the formation of a monitoring committee comprised of the Association of Ukrainian Students and the All Ukrainian Center for the Defense of Human Rights. Internews' Independent Media Center in Kiev has supported the development of UNIAN, the largest independent news agency in Ukraine that has recently overtaken the Government news agency as the main news source for Ukrainian publications. The rule of law consortium launched a multi-faceted legal reform program. The consortium is collaborating with the Ohio Supreme Court, the Ohio Bar Foundation and the high general court of Ukraine to train all 500 sitting judges of the high general court in the resolution of economic disputes in domestic and international affairs. In local government, work has begun in several city administrations to create information and decision-making systems that are more effective, transparent and accountable to the public. USAID-sponsored technical assistance and a U.S. study tour for the mayors of central oblasts led to the creation of the Association of Cities of Ukraine, a support organization and political voice for the concerns of cities and urban-based populations.

**Donor Coordination.** Throughout the past year, USAID has chaired regular meetings of donors who are concerned with the process of parliamentary and presidential elections in Ukraine. This group exchanged information on problems in the administration and conduct of elections, and directed donors' attention to areas in which assistance or oversight could be particularly helpful. Now that a new parliament has been elected, USAID meets regularly with other donors to assist parliament in developing the capacity to undertake legislative research.

**Constraints.** Ukraine has no real tradition of governmental or bureaucratic accountability to citizens, and consequently, there is a well-developed feeling of popular powerlessness and a low level of civic responsibility among both the governors and the governed. The political culture is tolerant of authoritarianism, discourages compromise solutions between conflicting parties, and has little tradition of free uncontrolled popular participation in politics. Independent broadcast and print media are in fledgling stages of development. The ultimate success of democracy in Ukraine is inextricably linked to the success of economic and social transformation. Unless the economic and social transformation process delivers tangible evidence to a broad spectrum of people that the quality of life in a democracy will be better than that experienced under the earlier authoritarian regime, there will be an inevitable backlash against those who champion democracy.

#### **SOCIAL SECTOR RESTRUCTURING (\$8,000,000).**

**SO 3.** To assist Ukraine in addressing the deterioration of support systems such as health care, housing and municipal services caused by the breakdown of the Soviet system, and to help maintain the neediest sectors during the transition (\$8,000,000).

Ukraine's economic decline has had a dramatic human element. Hyperinflation, fixed or falling incomes and rising prices, decreasing availability of food for the poor, shortages of critical imports such as fuel and medicines, and increasing hidden unemployment are drastically worsening the well-being of the population. The IMF Agreement with Ukraine further adds strict and rapid economic stress to the majority of the population who will be required by July 1995 to pay 60% of the production costs for housing and communal services. Covering these costs is estimated to absorb more than 100% of reported income of nearly one-third of Ukrainian families and between 50% and 100% of income for another one half of all families. The social service network faces fiscal collapse, with the decline and

threatened breakdown of federal, regional and local provision or maintenance of pensions, health care, municipal services and housing. Economic reforms and restructuring of state enterprises can help arrest economic deterioration and encourage foreign exchange flows to purchase critical imports. However, restructuring will also entail transitional social costs such as unemployment and shrinkage of social services delivered by the state. Restructuring and targeting of a menu of state-financed social subsidies is also essential and can lead to both budget savings and a focus on those truly in need.

Activities. Given overwhelming needs, USAID is maintaining a clear focus on key activities to help manage the present transition and create working models for the future including: (a) helping Ukraine structure new systems for providing social services appropriate for a market economy; (b) where government policy allows effective collaboration, helping strengthen both state and nongovernmental capacity to carry out critical social service functions; and (c) increasing indigenous nongovernmental capacity to alleviate the present suffering of the neediest groups in the population.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) at least one health care demonstration site is selected and being used by December 1996 to introduce market reforms to the health care sector; (2) management, administrative and clinical practices are improved in target hospitals and health centers and replicated in select oblasts by 1996; (3) decreased incidence of diphtheria cases; and (4) reduction in the percentage of GDP devoted to housing subsidies from 20% to 15% by July 1996.

Progress in 1993-1994. USAID's health care reform program has gotten underway, with demonstration sites operating in Lviv and Odessa. Four medical partnerships with premier U.S. institutions are helping improve health services delivery. With USAID assistance, a plan for improving family planning and perinatal care has been developed, and the Ministry of Health was assisted in drafting its health care reform legislation. Two seminars were held for Ukrainian pharmaceutical industry leaders from government and private industry on investment strategies in the U.S. pharmaceutical industry, and study tours for Ukrainian health officials on alternative health care financing and delivery systems have been conducted in the United States and Canada. A delegation of parliamentarians visited the United States in January 1995 to learn about the development of health policy and legislation by visiting national and state legislators' offices. In the provision of humanitarian assistance, USAID provided the GOU 22 million doses of adult diphtheria vaccine (Td) and diphtheria antitoxin to slow down the diphtheria epidemic. In addition, USAID is providing a one-year supply of insulin for juvenile diabetics and commodities to support training of health care workers in universal precautions to reduce the transmission of blood borne diseases (e.g. hepatitis B virus and HIV/AIDS).

In response to the IMF Agreement, the GOU has sought USAID assistance in the design and implementation of a social support system in the form of housing allowances for the poorest households. This system should be in place by July 1995. USAID has already designed a computer spreadsheet model to assist the government in determining the impact of various social support proposals for housing and communal services for families of different sizes and incomes. Inter-ministerial training workshops have been held on pricing reforms and targeted social subsidy issues; and training seminars have been held on a broad range of local government financing and management issues.

Donor Coordination. In the provision of humanitarian assistance, USAID's coordination with the Government of Canada has led to a joint effort to stop the diphtheria epidemic in Ukraine. USAID is providing vaccine (Td) to immunize adults who are at serious risk of contracting diphtheria. Canada, through the United Nations Children's Fund (UNICEF), is providing vaccine to immunize young children against diphtheria, tetanus and pertussis (DTP). USAID has played a predominant role in establishing the Interagency Immunization Coordinating Committee (IICC) which is a framework for coordination of donor support in immunization delivery and disease control in the NIS region. USAID has been coordinating closely with the IMF on targeted social subsidies for housing and communal services.

USAID support for restructuring the health system and strengthening reproductive health services in Ukraine is closely linked to the development of World Bank assistance in the health sector. The World Bank project, which is in the final stages of design, anticipates technical support from USAID-funded efforts concerned with financing, training, information systems, and delivery of reproductive health services to reduce maternal mortality and the prevalence of abortion.

**Constraints.** Legislation to reform the current method of financing and administering the Ukrainian health care system will be required to achieve significant improvements in efficiency and effectiveness of health care nationwide. More autonomy needs to be provided to local facilities, and more reliable and varied sources of funding, supplies and medications must be identified. Effective local government will require clear definition of fiscal responsibilities among national, regional and local government. Sound revenue-sharing arrangements must be established and stabilized so that cities can plan and operate effectively. Private pharmaceutical companies are unwilling to invest in local pharmaceutical production until the business climate improves. This may limit local pharmaceutical development activities to installing packaging and labeling capacity.

**Other Donor Resource Flows.**

Statistics on donor resource flows in Ukraine is not available from the Group of 24 or the Development Assistance Committee of the Organization of Economic Cooperation and Development.

**UKRAINE  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$126,000,000
Building Democracy	\$ 25,000,000
Social Sector Restructuring	\$ 8,000,000
Total	\$159,000,000

Regional Mission Director: Gregory Huger

## UZBEKISTAN

**FY 1996 Assistance to the NIS Request: . . . . . \$ 11,000,000**

Uzbekistan, with some 22 million people, is the most populous of the Central Asian successor states and the third most populous in the New Independent States (NIS). In common with the other four states in the region, it has a nominal ethnic majority, but many Uzbeks live beyond, and many non-Uzbeks live within, its borders. Uzbek nationalism preceded the establishment of communist rule in Central Asia and has found new expression as Uzbekistan emerges as the central state in the region, with a capital city benefiting from heavy infrastructure investment during the Soviet period.

Uzbekistan is the only Central Asian state to border all four of the other Central Asian states. It also shares a border with Afghanistan, and many Uzbeks live on the other side of this frontier. It has so far lived peacefully, if not always harmoniously, with its neighbors. The country has large mineral reserves and is potentially a major trading partner with the West. It is a leading cotton exporter but suffers serious environmental problems and financial distortions as a result of central planning and top-down economic mandates. Initial slowness in economic reform, combined with ongoing resistance to democratic change, has been matched by a relatively modest U.S. assistance program.

### **The Development Challenge.**

Lack of political openness and slow progress in terms of economic restructuring represent the main challenges in Uzbekistan. Human rights abuses are a concern, and political structures remain rigid. This, combined with economic stagnation, could eventually threaten the country's stability and would have implications for other countries in the region. A prosperous, pluralistic and open Uzbekistan, on the other hand, would help enrich the entire region as the country adapts to trading patterns which have become quite suddenly international in scope, market-driven, and foreign-exchange denominated.

### **Strategic Objectives (SOs).**

USAID is pursuing the following strategic objectives in Uzbekistan.

#### **ECONOMIC RESTRUCTURING (\$7,000,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$7,000,000).**

Although maintaining the rhetoric of economic reform, the government of Uzbekistan has often lagged behind in its implementation. Fears over loss of control are one obvious reason, and lack of administrative capacity to implement reforms is another. Targeted technical advice and training aimed at the overall macroeconomic environment can make an important difference in shaping economic change, as well as influence the programs of other players such as the International Monetary Fund (IMF) and the World Bank.

Faced with budgetary constraints and the seeming lack of will of counterparts, USAID has been planning to end privatization efforts in Uzbekistan. Some initial progress was made as a result of USAID assistance, including the establishment of auction centers in 12 oblasts and Karakalpakistan and the holding of some 68 auctions, resulting in the sale of approximately 500 government-owned entities. Although well received at local levels, necessary support had not been forthcoming from the State Property Organization. However, the government of Uzbekistan is currently concluding an agreement with the World Bank which calls for broader participation in ownership. USAID may reconsider extending its privatization support, dependent on: completion of the structural transformation facility (STF) with the IMF, negotiations for which have made progress; availability of U.S. assistance funds; and resolution of pending policy issues.

Activities. USAID activities will support the design and implementation of a new tax code; development and implementation of pension reform policies; reform of Central Bank procedures to increase independence; and tightened commercial bank supervision and capitalization requirements. Training programs will be a significant component of these activities. The Central Asia Enterprise Fund has opened an office in Tashkent to provide both loan and equity financing and related technical assistance. The Fund will establish a small business lending program in Uzbekistan.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the amount of government budgeting support to state-owned enterprises decreases; (2) systematic planning of fiscal resource allocation between different branches of government introduced into the annual budget process by December 1996; and (3) legislation rationalizing expenditure and revenue assignment responsibilities between branches of government is developed and adopted by December 1995.

Progress in 1993-1994. A number of important steps were taken in 1994 as part of ongoing IMF negotiations, which are expected to result in an agreement soon. Positive steps include the introduction of a new currency, cuts in subsidies, decontrol of some prices, and reductions in the budget deficit. Indirectly, USAID-funded advisors have assisted in this process, and extensive training programs have provided policy makers in Uzbekistan with first-hand opportunities to see how a market economy functions in the United States. Almost 200 people participated in 18 different training programs, many of them related to economic restructuring. The Government of Uzbekistan has been so impressed with the USAID training methodology that the government wishes to emulate it in training programs arranged by other donors.

Donor Coordination. USAID coordinates closely with the IMF and the World Bank; progress in negotiations with these multilaterals institutions has a bearing on USAID programming decisions.

Constraints. The legacy of decades of centralized Soviet planning is difficult to overcome. The central government has been reluctant to divest itself of direct ownership and management of state-owned enterprises.

#### **BUILDING DEMOCRACY (\$ 3,000,000).**

##### **SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$3,000,000).**

Minimal progress has been made toward opening up the political process in Uzbekistan and making it more democratic, but there are indications that Uzbekistan is sensitive to international concerns, and the government has on occasion responded to them. For example, political prisoners have been released and Uzbekistan is participating in Organization for Security and Cooperation in Europe (OSCE) conferences. Constituencies that are able and willing to discuss human rights issues and to project human rights concerns are lacking. There are few nongovernmental organizations (NGOs) active in Uzbekistan. USAID's focus in Uzbekistan is on improving the understanding of, and demand for, basic human rights and helping establish and strengthen public-interest NGOs.

Activities. Efforts are underway to establish a productive collaboration in areas related to NGO development and human rights. USAID-supported NGO projects will provide organizational advice, help develop the legal infrastructure for NGO operations, and provide small grants for start-up NGOs.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) number of viable political parties representing significant segments of society increases; (2) new and revised civil codes that protect individual civil and property rights is developed and adopted by the executive or the legislative branch of government; and (3) the number of NGOs working on human rights and public interest issues increases.



Progress in 1993-1994. Increasing awareness of human rights issues will be a long-term process. A recent USAID-sponsored youth conference on human rights and democracy reached over a thousand participants. USAID co-sponsored a regional NGO conference in Tashkent in November, 1994, which provided an opportunity for local citizens to meet other NGOs, and to learn how to form an NGO and how to apply for USAID-funded small grants to assist in establishing NGOs. However, local registration requirements remain a deterrent.

Donor Coordination. USAID coordinates with other groups such as the Soros Foundation in promoting NGO development. No other donors are working on democratization issues in Uzbekistan.

Constraints. There has been little or no openness within the Government of Uzbekistan on human rights issues, which it considers secondary to broader political and economic concerns. Decades of centralized Soviet rule make even the very notion of an NGO incomprehensible to some local officials.

## **SOCIAL SECTOR RESTRUCTURING (\$1,000,000).**

### **SO 3. Social sector restructured to enable efficient and sustained delivery of quality social services and benefits (\$1,000,000).**

Improving the delivery and sustainability of core social services is crucial to improving social welfare and building popular support for economic and political reform. Technical assistance in health service delivery can contribute to modernizing clinical procedures and protocols, strengthening efficiency and effectiveness of medical interventions, and reducing the use of costly tertiary facilities in favor of primary care services. Market-based approaches could dramatically expand the availability of needed health care. Specific attention to reproductive health is warranted in Uzbekistan to address high levels of maternal and infant mortality, and a notable reliance on abortion. Private marketing of contraceptives could expand women's options and reduce the number of abortions. Expanding the delivery of potable water and addressing environmental health concerns is also a critical social concern in Uzbekistan.

Activities. Through the NIS exchanges and training program, USAID will support social sector reform by allowing key individuals to learn first-hand how a broad range of social sector issues are addressed in the United States. Health finance systems will be strengthened by examining alternatives, such as insurance schemes, privatization, or continued public financing of certain services. Work will continue on modernizing family planning practices and developing a test market for the commercial sale of contraceptives. A hospital partnership established between two Tashkent hospitals and the University of Illinois Medical Center will continue to promote the introduction of more efficient medical and management practices and technologies. The Centers for Disease Control and Prevention will provide technical assistance to the government to improve public health surveillance systems and response to disease outbreaks. Technical assistance will be provided to support sustainable childhood immunization services. Environmental health activities will focus on measuring levels of selected pesticides in the environment, will promote health awareness on pesticide use, and will conduct baseline water quality and epidemiological investigations. As part of the regional Aral Sea Initiative, USAID is helping improve the operation and maintenance of the Nukus and Urgenech water treatment plants. In addition to providing laboratory and chlorination equipment, a public health education program will assist in enhancing the public's understanding of water-use issues in the region.

Indicators. The following is a partial list of provisional indicators measuring progress toward this strategic objective: (1) the number of oblast-level health care facilities with trained and retrained (U.S.-funded) health care providers is increased; (2) the number of private health care practitioners, non-profit care facilities, and pharmacies is increased; recommendations to privatize the health and pharmaceutical sectors are developed and adopted; (3) abortion prevalence decreases; and (4) increase in the number of households with access to safe drinking water.

Progress in 1993-1994. Modest efforts been made in this area thus far, mainly in terms of exposing policy makers to alternative approaches, including cooperation with the private sector through participation in various USAID-funded training programs.

Donor Coordination. USAID programs in this area are coordinated with those of other donors, including the World Bank. USAID has played a major role in establishing the Interagency Immunization Coordinating Committee, which coordinates donor support in immunization delivery and disease control activities in the NIS.

Constraints. The legacy of Soviet rule includes a strong emphasis on centralized, health-service delivery. There is little history of private sector participation in service delivery, and policy makers can be convinced only through demonstrated example that such approaches can be effective.

#### **Other Donor Resource Flows.**

Statistics on donor resource flows in Uzbekistan are not available from the Group of 24 or the Development Assistance Committee of the Organization for Economic Cooperation and Development.

#### **UZBEKISTAN FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$ 7,000,000
Building Democracy	\$ 3,000,000
Social Structure Restructuring	\$ 1,000,000
Total	\$ 11,000,000

USAID Regional Mission Director: Craig Buck

## REGIONAL ACTIVITIES IN CENTRAL AND EASTERN EUROPE

**FY 1996 Assistance to Central and Eastern Europe Request . . . . . \$93,166,000**

The Support for Eastern Europe Democracy program began as a regional program after the collapse of communism in Central and Eastern Europe in 1989. A program of regional projects provided the flexibility to move funds and activities quickly to different countries as targets of opportunity arose in a fast-changing situation. Since then, increased staff have been placed in the field; country specific strategies have been developed, reviewed and approved; and field missions have prioritized programs within country funding levels.

Regional projects continue but with country and regional funding. The use of the country funding is described in the various country narratives above. Regional activities which are supportive of more than one country are discussed here. This includes regional projects benefitting several countries, such as a program to clean up the Danube; contract personnel who provide technical services to more than one country; and regional conferences, working groups or courses that benefit participants from a number of countries.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives within the SEED program in Central and Eastern Europe.

### **ECONOMIC RESTRUCTURING (\$53,037,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$53,037,000).**

Activities. A major new Southern Balkan initiative for up to \$30 million will encourage regional integration and promote cooperation. The program will be directed toward the countries which are the most severely affected by the sanctions against Serbia and Montenegro. Feasibility studies, technical assistance and training programs will lay the groundwork, leveraging funds from other donors both public and private, to improve links between Albania, the former Yugoslav Republic of Macedonia and Bulgaria whose normal trade routes through Serbia have been cut off. Macedonia is particularly isolated since it is also suffering from the embargo on trade to the south through Greece. The sanctions and the embargo have resulted in serious set-backs to the economies of these countries to the extent that survival of their fledgling democratic market economies is threatened. U.S. assistance will be coordinated with other donors in implementing a new regional program.

Funds are reserved for the fastest performing Enterprise Funds in the region. Additionally, some of the Baltic-American Enterprise Fund budget remains regional, since it is not yet known where the funds ultimately will be invested.

Other ongoing regional activities will require additional funding in FY 1996. For example, the U.S. and Central and Eastern Europe (CEE) energy partnership program plans regional workshops. There are a number of regional programs in the Baltic countries to integrate and thereby conserve energy resources there.

Funds are set aside for new initiatives in microenterprise development which are in the planning stages and cannot yet be allocated by country.

### **BUILDING DEMOCRACY (\$29,183,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of**

citizens through democratic political processes (\$29,183,000).

Activities. A major initiative is the development of a regional anti-crime and corruption program initially in the Baltic countries and Poland, later to be expanded to other countries. Funding allocations for specific country programs beyond the initial four will be determined in late FY 1995.

Another major initiative is the expansion of public administration programs throughout the region focusing on improvement in the quality of government at all levels. Also, independent media activities will be expanded. Funds are planned for countries which develop needs in these areas beyond what has been budgeted.

Regional funds will continue to support regional programs, such as the Presidential initiative to promote "democracy networks" in Eastern Europe through the inter-country cooperation of newly developed, nongovernmental organization advocacy groups. Both country-specific and regional funds support this program.

Funds are being reserved in the regional program for assistance in planning national or local elections or other activities in support of developing democratic political systems.

#### **SOCIAL SECTOR RESTRUCTURING (\$10,946,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy, and help sustain the neediest groups of the population during the transition period (\$10,946,000).**

Activities. Another initiative is an enhanced program to address the adverse effects of economic restructuring and large enterprise privatization on CEE populations and to improve government performance in providing social benefits cost-effectively. A program to support social sector restructuring in Poland is now being developed. Lessons learned from this program will be used to develop programs in other CEE countries.

Funds are also reserved for emergency humanitarian assistance requirements in the region.

Regional environmental programs, such as the Danube Basin clean-up program, a multilateral development effort, and the Regional Environmental Center, are also being funded through the regional budget.

#### **REGIONAL ACTIVITIES IN CENTRAL AND EASTERN EUROPE FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$53,037,000
Building Democracy	\$29,183,000
Social Sector Restructuring	\$10,946,000
Total	\$93,166,000

USAID Office Director: Peter Orr

## REGIONAL ACTIVITIES IN THE NEW INDEPENDENT STATES

**FY 1996 Assistance to the NIS Request . . . . . \$159,000,000**

USAID's assistance program to the New Independent States (NIS) of the former soviet Union began as a regional program after the collapse of communism and the Soviet Union in 1992. A program consisting of regional projects gave the initiators of FREEDOM Support Act assistance the flexibility to move funds and mount activities quickly to different countries as targets of opportunity arose in a fast-changing situation. As time has passed, USAID has placed increasing staff in the field; developed, reviewed and approved assistance strategies for most countries; and asked the field missions to prioritize programs within country funding levels.

USAID continues to fund regional projects, although the allocation of funds among countries in those projects is now defined in advance. The use of these funds is described in the various country narratives above. USAID has continued, however, to fund some truly regional activities which are supportive of more than one country. This includes regional projects benefitting several countries, such as the regional enterprise funds; contract personnel who provide technical services to more than one country; and regional conferences, working groups or courses that benefit participants from a number of countries. USAID also plans to set aside "Performance Funds" to respond quickly with increased assistance in support of new or accelerating macroeconomic or sectoral reform programs.

### **Strategic Objectives (SOs).**

USAID is pursuing the following three strategic objectives with regionally designated funds in the NIS.

### **ECONOMIC RESTRUCTURING (\$63,000,000).**

**SO 1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed (\$63,000,000).**

#### Activities.

(A) Private Sector: Regional funds cover Washington-based technical advisors who support multiple field missions in project design and implementation, and service contracts that assist USAID with a variety of non-technical support functions. Inter-agency service agreements, such as that with the Securities and Exchange Commission, help in performance monitoring and assessment across the region.

(B) Enterprise Funds: Incremental funding for the West NIS Enterprise Fund will allow the Fund (begun in FY 1994) to continue fostering private sector development by providing investment (equity and loan) capital to small and medium-scale businesses in Ukraine, Belarus, and Moldova. The Central Asian Republics Enterprise Fund (also begun in FY 1994) provides similar investment capital to Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Both funds are demand-driven, and are likely to support the most business deals in the republics that have cultivated the business climates most hospitable to entrepreneurs.

(C) Performance Fund: Given the rapidly changing political environment in many NIS republics, and given that commitment to economic reform can wax and wane with the fortunes of key reformers and in response to popular support, U.S. interests in the region can best be served by keeping a reserve of funds unallocated by country and ready to apply on short notice where they can best be utilized to support reform. Performance funds will be used to support new or accelerating macroeconomic reform or superior performance in key restructuring sectors of the economy.

## **BUILDING DEMOCRACY (\$33,000,000).**

**SO 2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes (\$33,000,000).**

Activities. (A) Democracy: Regional funds will support the continuation of anti-crime and corruption activities begun in FY 1995, and extend these activities from the primary focus countries of Russia and Ukraine to other parts of the region in response to opportunities as they are identified. Funds for regional activities are also contemplated in both political process and rule of law. In the former, regional conferences and training programs are included, as are funds to supplement unforeseen requirements, such as elections assistance. For rule of law, USAID intends to expand the work of the Shkarov Center, a human rights institute in Moscow, to other parts of the region.

(B) Eurasia Foundation: The Eurasia Foundation makes small grants to non-governmental organizations to support economic and political reform and independent media and communications. Since its inception in 1993, the Foundation has awarded grants for activities in all of the New Independent States. The foundation will continue to award grants to U.S. and indigenous non-profit organizations such as sister cities programs, cooperating U.S. and NIS universities, technical institutes or hospitals, and traditional NGOs in need of strengthening. A new program in the for-profit sector will make recoverable grants or small loans, called program related investments (PRIs). It is estimated that for every dollar provided by the Foundation, two dollars is leveraged from the assisted entity.

(c) Title VIII: A transfer to the State Department will help build and sustain the U.S. scholarly base on the region by providing stable financing on a national level for advanced research; graduate and language training (domestic and on-site); public dissemination of research data, methods, and findings; and contact and collaboration among government and appropriate specialists.

## **SOCIAL SECTOR RESTRUCTURING (\$63,000,000).**

**SO 3. Strengthen the capacity to manage the human dimension of the transition to democracy and a market economy and help sustain the neediest groups of the population during the transition period (\$63,000,000).**

Activities. (A) Special Initiatives, Humanitarian Assistance and Transport: Regional funding is provided to ship goods donated by private U.S. groups and individuals to countries in crisis in the New Independent States, for the Israel Cooperative Development Program, the Israel Cooperative Development Research Program and for regional technical and managerial assistance in support of humanitarian programs in the Caucasus and Tajikistan.

(B) Health: Regional health funding pays costs of technical assistance expertise associated with vaccine and pharmaceutical procurement and delivery, hospital partnerships, and women's health programs that cannot be attributed clearly to individual country programs.

**REGIONAL ACTIVITIES IN THE NEW INDEPENDENT STATES  
FY 1996 PROGRAM SUMMARY**

USAID Strategic Objectives	
Economic Restructuring	\$63,000,000
Building Democracy	\$33,000,000
Social Sector Restructuring	\$63,000,000
Total	\$159,000,000

USAID Office Director: Brian Kline

**LATIN AMERICA AND THE CARIBBEAN**

**Mark L. Schnider**  
**Assistant Administrator**  
**Bureau for Latin America and the Caribbean**



## LATIN AMERICA AND THE CARIBBEAN

FY 1996 Development Assistance Fund Request:.....	\$385,000,000
FY 1996 Economic Support Fund Request:.....	\$117,820,000
FY 1996 International Narcotics Control Request:.....	\$47,000,000
FY 1996 P.L. 480 Title II Request:.....	\$94,256,000
FY 1996 P.L. 480 Title III Request:.....	\$10,000,000

### Democracy and Prosperity: A Shared Vision.

*The Elected Heads of State and Government of the Americas are committed to advance the prosperity, democratic values and institutions, and security of our Hemisphere. For the first time in history, the Americas are a community of democratic societies. Although faced with differing development challenges, the Americas are united in pursuing prosperity through open markets, hemispheric integration, and sustainable development.*

#### - Summit of the Americas Declaration of Principles

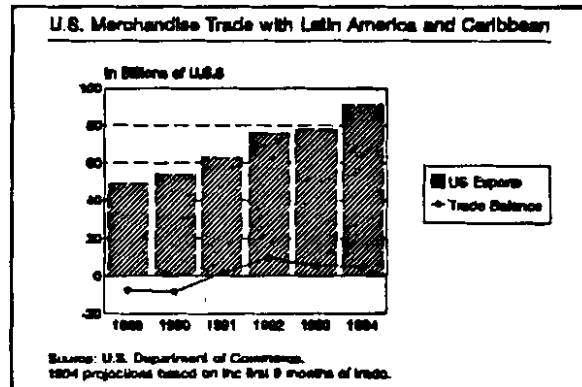
President Clinton met with the elected heads of the 33 other Western Hemisphere democracies at the Summit of the Americas on December 9-10, 1994. The 34 leaders pledged their mutual commitment to achieving four objectives:

- Preserve and strengthen the community of democracies of the Americas;
- Promote prosperity through economic integration and free trade;
- Eradicate poverty and discrimination in our hemisphere; and
- Guarantee sustainable development and conserve our natural environment for future generations.

Never before in history have the nations of the hemisphere shared a common vision and values so clearly as they did at the Summit. This shared vision recognizes that we have a common destiny which must be built upon a sustainable foundation of equitable economic growth; democratic, participatory institutions; smaller, healthier families; and protection of the natural environment.

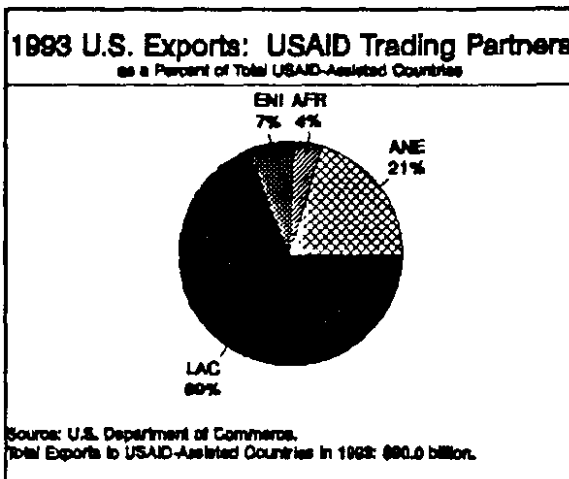
### USAID Support to LAC Benefits the United States.

The United States stands to benefit greatly from helping Latin American and Caribbean (LAC) countries realize our shared vision. Indeed, our most vital national interest -- the health of our domestic economy -- depends in no small measure on the economic health of the other countries in the hemisphere. The LAC region is the fastest growing market for U.S. exports of goods and services, and also one of the largest. Our exports of goods alone to the LAC countries reached an estimated \$91 billion in 1994, more than three times their level 10 years ago. These exports support more than 1.8 million jobs in the United States. The U.S. market



share of LAC countries' imports from Organization for Economic Cooperation and Development (OECD) countries has risen from 48% in 1986 to 57% in 1993.

U.S. economic growth and employment depend far more on the growth of LAC economies than on any other part of the developing world. In 1993 the LAC region accounted for more than 69% of all U.S. exports to USAID-assisted countries, while the share of the Africa, Asia, Near East, Europe and New Independent States regions combined was 31%. The U.S. trade balance with the LAC region has gone from a deficit of \$8 billion in 1990 to an estimated surplus of \$5 billion in 1994. Billions of investment dollars and millions of tourists flow both ways across our common borders. U.S. direct investment in the LAC region totals \$102 billion, 19% of all our investment overseas and two-thirds of our investment in all developing countries.



The health of the U.S. economy will become even more dependent on the economic health of the LAC region in the future. Not only is it our natural market, but the Summit declaration committed the countries of the hemisphere to concluding negotiations for a Free Trade Area of the Americas (FTAA) by 2005. The FTAA will be the world's largest free trade area, encompassing 34 countries with a current total population of about 750 million and a combined gross domestic product (GDP) of more than \$8 trillion.

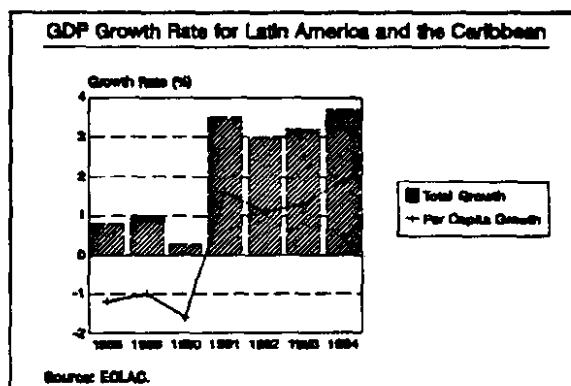
Strong democracies in LAC countries are essential to maintaining our own high quality of life. Democratic governments with shared values are key to making significant progress on many issues of interest to the United States, such as economic integration, pollution reduction, global warming, biological diversity, narcotics trafficking, public health, and acquired immunodeficiency syndrome (AIDS) prevention. Strong democracies also will lead to reduced emergency assistance and lower U.S. defense expenditures in the region over the long run.

The recent efforts of the LAC countries to reform themselves have created an environment within which well-targeted U.S. assistance can have a high payoff in helping LAC countries achieve our shared vision thus promoting our own interests. As host and principal organizer of the Summit, and leader among the nations of the hemisphere, the United States has a special role in supporting the accomplishment of Summit objectives. USAID's priorities in the LAC region -- encouraging broad-based economic growth, building democracy, reducing population growth and improving health, and protecting the environment -- directly address these objectives.

#### **LAC Economies are Growing Again . . .**

By many common measures, LAC countries appear to have made good progress in improving the quality of life and living standards for their citizens over the last 35 years. Life expectancy between 1960 and 1991 increased from 56 to 68 years, and infant mortality declined from 105 per 1,000 live births to 47. Indicators of adult literacy, school enrollments, and access to safe drinking water have all improved. Malnourishment among children has declined.

Although per capita GDP fell by 8% during the 1980s, it grew by 6% over the last four years. The region's total GDP increased by an average of 3.4% a year during 1991-94. The LAC region has become a more attractive place for investors, both domestic and foreign. Net capital inflows averaged \$55 billion a year during 1991-94, compared with an annual average of only \$9 billion during 1983-90. Recent events in Mexico are unlikely to have more than a short-run effect on these flows.



**... But High Rates of Poverty Persist**

Despite these signs of progress, however, poverty rates remain high. The United Nations Economic Commission for Latin America and the Caribbean estimates that 196 million people in the LAC region (46% of the total population) were living in poverty in 1990, up from 136 million (41%) in 1980.

The incidence of poverty appears to have lessened slightly in most LAC countries in the early 1990s. Urban poverty fell in 8 of 11 countries for which data are available. Among the poorer countries, for example, Bolivia's poverty rate fell from 53% in 1989 to 50% in 1992. Similarly, rural poverty rates declined in 5 of 6 countries for which data are available.

However, economic growth and the rate of poverty reduction in the region remain too slow to meet the Summit objectives of eradicating poverty, reaching a 100% primary school completion rate by 2010, and reducing child mortality by one-third and maternal mortality by one-half by 2000.

**Participation of the Poor Must Increase.**

The facts in the LAC region, then, do not support the traditional belief that "a rising tide lifts all boats." Although some boats are now rising, a major part of the population remains excluded from the economic, social, and democratic life of LAC countries. The data below, from the United Nations Development Program's (UNDP) Human Development Report 1994, demonstrate the large income gap between the haves and have-nots:

Ratio of Income of the Highest 20% of Income Recipients to Income of the Lowest 20%, 1980-1991

**Developed Countries (OECD members):**

OECD Average                      7

**USAID-Assisted LAC Countries (for which data are available):**

Brazil	32	Jamaica	8
Colombia	13	Mexico	14
Dominican Republic	13	Panama	30
Guatemala	30	Peru	10
Honduras	24		

This wide disparity in incomes is unique to the LAC region. Similar data for African, Asia, and Eastern European countries show few countries with such extraordinary income inequality. LAC countries are unlikely to replicate the rapid GDP growth rates experienced by East Asia in the last few decades without major improvements in the education, training, and health of their work forces. A virtuous circle of economic growth and poverty reduction will require much higher investment in the human

capital of the poor. One of the major differences between the East Asian miracle countries and the LAC region is that the former invested heavily in good-quality basic education.

Many LAC citizens, in addition to being excluded from participation in the economic system, cannot effectively participate in democratic processes. In some cases, e.g., Guatemala and the Andean countries, those excluded are largely members of indigenous cultures. Geographic isolation tends to add to their exclusion. Economic and social disenfranchisement can be a major barrier to political stability, as events in Mexico demonstrated last year.

*It is politically intolerable and morally unacceptable that some segments of our populations are marginalized and do not share fully in the benefits of growth. With an aim of attaining greater social justice for all our people, we pledge to work individually and collectively to improve access to quality education and primary health care and to eradicate extreme poverty and illiteracy. The fruits of democratic stability and economic growth must be accessible to all, without discrimination by race, gender, national origin or religious affiliation.*

- Summit of the Americas Declaration of Principles

#### **USAID's Strategy in the LAC Region.**

*The great remaining challenge is to increase opportunities for the poor to participate in economic growth.*

- USAID's LAC Development Assistance Strategy

The lack of participation of a major part of the population in the economic and democratic systems presents a fundamental challenge to LAC countries, and also works against U.S. interests. It means that a potential market of close to 200 million people effectively cannot be direct consumers of U.S. goods and services unless their incomes rise.

To meet this challenge, USAID has adopted a sustainable development strategy that integrates the elements we have determined to be most critical for reducing poverty in the long run: encouraging broad-based economic growth, building democracy, reducing population growth and improving health, and protecting the environment. Individual country programs are designed to balance activities that promote long-term, broad-based economic growth with those that directly benefit the poor, so as to achieve a significant and sustained reduction of poverty over the long run. USAID's programs focus on 16 of the region's 32 democracies where disenfranchisement of the population is greatest.

The synergy among the strategy elements makes the whole greater than the sum of the parts if each were pursued separately. Economic growth is essential for improved living standards, and structural adjustment is important for accelerating economic growth. But structural adjustment will not be broad-based, nor will it produce growth that is sustainable, unless it consciously focuses on the other three strategy elements. Efforts to reach the poor are ineffective without a commitment to improving their access to resources, institutions, and decision-making processes. Economic growth is not sustainable without democracy, and democracy opens opportunities for greater participation of the poor by improving business opportunities and increasing earnings potential at the micro level. The gains from economic growth and participation will be diminished if population growth continues at high levels, and the ability of future generations to be productive will be diminished if their natural resource endowments are destroyed by the present generation.

## **1. Encouraging Broad-Based Economic Growth.**

The rapidly growing trade between the United States and the LAC region has been made possible by the increasingly successful efforts of LAC countries to turn away from state-controlled, import-substitution economic models toward market-oriented economic policies. This transition has made the LAC region far stronger and more stable than it was during the economic crisis of the early 1980s. The Summit commitment to conclude negotiation of the FTAA by 2005 would have been unthinkable had most LAC countries not already opened their markets and restored sound economic management.

Recent events in Mexico, however, underscore the fragility of the LAC region's economic progress. The deterioration of the peso, and the corrective actions the new Mexican government has had to take, have shown how vulnerable a more open economy can be even with generally good macroeconomic management. Moreover, the persistence of high rates of poverty in the region makes clear that economic growth alone has not sufficiently reduced the region's great disparities in income and wealth.

### **USAID Assistance has Facilitated Equitable Economic Growth.**

While credit for economic recovery in the LAC region must go primarily to the determination of the Latin American and Caribbean people themselves, the investment by the United States in its foreign assistance program has contributed significantly to this progress:

- In El Salvador, Honduras, and Panama, USAID was the lead external assistance agency supporting economic policy reforms during periods when the international financial institutions (IFIs) suspended their activities. With our assistance in improving macroeconomic management, each of them resumed real growth of GDP per capita starting in 1990 and regained access to IFI resources and private capital inflows (although Honduras' policy performance -- and economic growth -- slipped in 1994).
- The primary school completion rate rose between 1989 and 1993 in all five LAC primary education emphasis countries (El Salvador, Guatemala, Haiti, Honduras, and Nicaragua) by an average of 1 percentage point per year, from 42.4% to 47.8%. Quality and efficiency indicators improved as well.
- In five countries (Bolivia, Honduras, Jamaica, Nicaragua, and Peru) 132,982 small firms and microenterprises, both agricultural and non-agricultural, improved their production and incomes with USAID assistance in 1993.

### **Strategic Objectives.**

USAID programs in the LAC region will continue to advance U.S. interests by directly supporting programs that address the Summit objectives of promoting prosperity and eradicating poverty and discrimination in the hemisphere. Our programs give priority to activities that:

- Restructure public sectors to be more responsive to the needs of their populations, especially the urgent needs of the poor and other vulnerable groups;
- Broaden the base of economic growth to include the poor and thus reduce the risk that economic policy reforms will be reversed;
- Support LAC countries' efforts to advance toward our vision of hemispheric free trade as key to prosperity; and
- Ensure that all children benefit from quality primary education.

## 2. Building Democracy.

Highly democratic countries do a better job of creating a climate of confidence and stability in international relations than undemocratic states or fragile democracies. They also provide increased opportunities for efficient private enterprise, and cooperate more effectively in resolving cross-border issues such as international health, narcotics, and immigration problems.

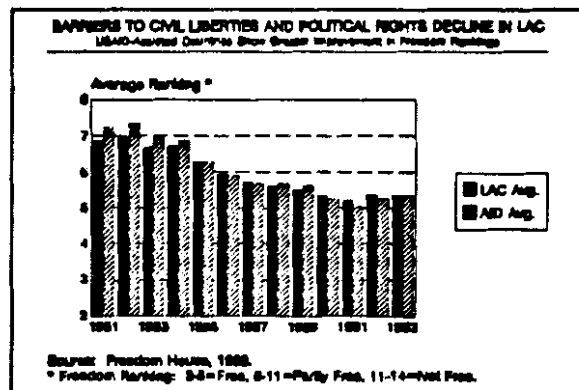
Stronger democracies in the region will lead to lower U.S. defense expenditures over the long term. Situations giving rise to U.S. military involvement in the region will be less frequent, and more of the costs of preserving democracy will be shared. Indeed, the results of recent progress in democracy building in the region are already apparent. The unified regional support for the return of Haiti's elected president would not have occurred had the LAC region still been the domain of the generals rather than a community of states -- all except Cuba -- with freely elected, civilian leaders.

Nevertheless, a broader concept of democracy, under which citizens have a wealth of outlets to express political choices -- a free press, nongovernment organizations (NGOs), unions, political parties, and other organizations, as well as effective local governments -- is only beginning to emerge in some countries.

### USAID Assistance has Strengthened Democracy.

USAID has been assisting efforts to strengthen democracy in the LAC region for more than 15 years. Our impact is most clearly seen in improved electoral systems and administration of justice.

- The number of USAID-assisted countries considered "free" by Freedom House rose from 5 in 1982 to 6 in 1993, and the number considered "not free" declined from 4 to 2. By the end of 1995, USAID expects all countries in the region -- leaving aside the anomalous case of Cuba -- to be "free" or "partly free," as democracy has been restored to Haiti, and constitutional government will be largely restored in Peru with the election of a new Congress and President in June 1995.



- 14 of the 16 USAID-assisted countries in the region have held free and fair elections within the last two years. Parliamentary elections are planned in another -- Haiti -- early this year. USAID assisted in establishing modern electoral systems in 9 of the USAID-assisted countries.
- 11 USAID-assisted countries are improving their systems for administering justice with our help.

### Strategic Objectives.

USAID programs have much to contribute in advancing U.S. interests by supporting the efforts of LAC countries to broaden and deepen democratic processes that in many cases remain very fragile. Our programs support:

- Greater adherence to the internationally recognized human rights of individuals as persons, citizens, and workers;

- Efforts to deepen the practice of citizenship, and to strengthen civil society; and
- "Good governance" to make government institutions more transparent, accountable, effective, decentralized, and accessible to citizens.

### 3. Reducing Population Growth and Improving Health.

Efforts to build democracy, accelerate economic growth, and use natural resources in a sustainable way can be successful in the long run only if population growth is reduced. Smaller families tend to produce children who are healthier, better educated, and earn more. Fewer, more productive adults ultimately buy more U.S. goods and services and participate more in democratic processes.

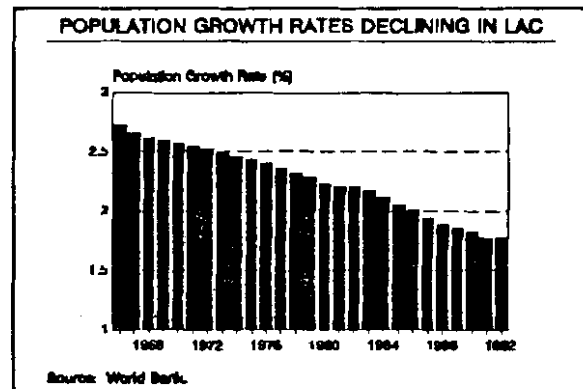
A specific U.S. concern is emigration from the LAC region. Higher birth rates mean more poorly educated, low-skill, low-wage workers, who form a pool of potential immigrants to the United States. During economic and political crises in LAC countries, more people try to emigrate, both legally and illegally, to the United States. This inflow of people from the LAC region creates stresses and inequities here, as the recent referendum on Proposition 187 in California illustrates. It also affects our health conditions. For example, if measles had been controlled in the region, the United States would probably have eliminated it in the 1980s, thus averting the costly 1990 epidemic.

For all of these reasons, U.S. interests are served by continuing to help LAC countries reduce their population growth rates and improve the health of their citizens. More slowly growing populations benefit people in both the LAC region and the United States, and support the achievement of all our common objectives.

#### Dramatic Decline in Population Growth.

The region's annual rate of population growth has declined from 2.8% in the 1960s to 1.8% in the 1990s, the net result of steady declines in death rates, especially among children, and much higher use of family planning. USAID has played a major role in helping LAC countries achieve this reduction.

- Average life expectancy in USAID-assisted countries increased from 52.4 years in 1960 to 65.3 in 1991.
- The average proportion of married women using modern contraceptive methods rose from more than 41% in 1989 to almost 49% in 1994 in the 13 LAC population emphasis countries. This is dramatic progress in only five years.
- The average infant mortality rate in LAC's nine child survival emphasis countries fell by more than a quarter in the last ten years, from 82.3 deaths of children under one year of age per 1,000 live births in 1984, to 60.5/1,000 in 1994.



#### Strategic Objectives.

To help continue this progress and ensure its sustainability, USAID-funded activities:

- Support programs and policies that enable couples and individuals to determine freely and responsibly the number and spacing of their children;

- Seek to reduce human immunodeficiency virus (HIV) transmission by increasing access to condoms, controlling sexually transmitted diseases (which enhance HIV transmission), and promoting safer sexual behavior;
- Support programs to reduce the unacceptably high maternal mortality in many LAC countries;
- Build on its successful child survival programs in the region to ensure continued impact and to reduce the remaining preventable mortality; and
- Support programs and policies to enhance equitable access to decentralized and sustainable health services.

#### **4. Protecting the Environment.**

Economic growth in the LAC region has occurred at a high cost to the environment. Continued uneconomic exploitation of the environment and natural resource base will reduce future economic growth, raise health costs, and result in an irreplaceable loss of natural resources and biodiversity.

Long-term U.S. interests in helping LAC countries protect their environment include ensuring a growing market for our products through the economically sustainable development of one of our largest markets; preserving our own environment by helping LAC countries contribute less to global warming; and maintaining biodiversity areas as sources for medically useful organisms and inorganic matter, and for preserving gene pools that have the potential to greatly increase food production. More specific interests include reducing pollution in border areas with Mexico to mitigate negative effects in the United States, and creating effective environmental regulatory systems to even the playing field for U.S. and LAC producers under the North American Free Trade Agreement (NAFTA) and the proposed Free Trade Area of the Americas (FTAA).

#### **Increasing Efforts to Address Environmental Problems.**

USAID assistance has:

- Brought 1,172,000 hectares (2,895,000 acres) of agricultural and forest land under modern management systems in six countries (Guatemala, Honduras, Jamaica, Nicaragua, Panama, and Peru) through 1993;
- Improved the management of 55 parks containing biological diversity of global significance;
- Helped Mexico toughen its environmental regulatory framework for free trade; and
- Assisted nine countries over the last three years to establish endowments that fund private environmental activities on a sustainable basis.

#### **Strategic Objectives.**

USAID supports programs in LAC countries that:

- Improve resource management for sustainable economic growth, particularly in natural forest management, marine ecosystems, and agriculture;
- Assist in the control, reduction, and prevention of urban and industrial pollution;



- Promote the development of sustainable and renewable energy sources and encourage conservation, improved efficiency, pricing reform, and privatization of the energy sector;
- Reduce greenhouse emissions through sustainable energy production and natural forest management;
- Conserve biological diversity in the Americas, both terrestrial and marine;
- Promote strong civic organization and participation in protecting the environment; and
- Strengthen and harmonize their environmental standards for accession to the FTAA, by supporting the development of policies and institutions responsible for compliance with regulations and by supporting access to cleaner and environmentally friendly technologies.

#### **Combatting Drug Trafficking.**

Illicit drugs corrupt institutions and tear at the social fabric of the United States and almost all Latin American and Caribbean countries. Too many people in the hemisphere ruin their lives or suffer random violence because of illegal drugs and the antisocial behaviors they engender.

As part of its program to reduce drug use here, the United States Government has embarked on a comprehensive program to get countries in the region to reduce the supply of drugs. Other U.S. Agencies are helping Latin American governments to develop effective law enforcement systems and educate citizens to the dangers of drugs. USAID helps key source countries to provide environmentally sound, economically sustainable alternatives to illegal drug production, and to improve the administration of justice.

#### **Sustainable Development Countries.**

USAID's activities are carried out in those countries within the region that:

- have the lowest per capita GDP and quality of life indices; or
- are major contributors to USAID's three global concerns: world population growth, global warming, and loss of biodiversity;

Programs will continue in 16 countries -- 12 core and 4 other sustainable development countries. These countries accounted for 82% of two-way U.S.-LAC trade in 1994.

The 12 core sustainable development countries rank lowest in the region in GDP per capita and the UNDP's Human Development Index. They are:

<u>Caribbean</u>	<u>Central America</u>	<u>South America</u>
Dominican Republic	El Salvador	Bolivia
Guyana	Guatemala	Ecuador
Haiti	Honduras	Paraguay
Jamaica	Nicaragua	Peru

These countries have not yet reached a point where their development is sustainable. As a result, our programs there address all, or almost all, of USAID's strategic objectives. Countries in this category will need external assistance for a number of years to achieve sustainable development.

Three of the four other sustainable development countries -- Brazil, Colombia, and Mexico -- are major contributors to USAID's global concerns. The program in the fourth, Panama, addresses a major U.S. foreign policy concern: successful implementation of the Panama Canal Treaty. While their development is approaching sustainability, all four have a high percentage of citizens living below the poverty line and/or major problems of inclusion that may threaten the sustainability of their development. Programs in these countries are limited in scope to one or two strategic objectives.

Development progress in 11 LAC countries has been strong enough that they will be graduating from USAID assistance programs in FY 1995 and FY 1996. These countries are Argentina, Belize, Chile, Costa Rica, Uruguay, and the six nations of the Organization of Eastern Caribbean States (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines).

#### LAC Countries as Partners.

All of the sustainable development countries in the LAC region are good partners. All have now taken significant measures to improve their economic policies in response to the economic crisis of the 1980s and the radical change in the international economic environment that accompanied it. Some countries began the reform process relatively early (e.g., Mexico), while in others the process did not begin in earnest until the mid to late 1980s (e.g., Bolivia, El Salvador), early 1990s (e.g., Nicaragua, Peru), or even last year (Brazil). The results of reform are apparent: all except Nicaragua and Haiti have resumed economic growth.

All of our LAC partners have democratically elected governments, with a few -- Guatemala, Haiti, Nicaragua, and Peru -- still struggling to overcome the legacy of undemocratic regimes in the recent past. All are making progress in addressing the basic education and health needs of their citizens, although the rate of progress in some countries (e.g., the Dominican Republic, Guatemala, and Paraguay) is still slow. All exhibit good progress in reducing population growth, and most are taking steps to improve the environment. Finally, all have demonstrated a willingness to seek agreement with us on matters of mutual interest.

#### Donor Coordination.

For the entire LAC region, USAID's funding request of \$654 million appears modest compared to the \$5.2 billion in loans approved by the Inter-American Development Bank (IDB) in calendar year 1994, or the \$4.7 billion in World Bank commitments during its fiscal year ending June 30, 1994. However, if the comparison is restricted to USAID's 12 core sustainable development countries, USAID's \$618 million, compared to \$2.1 billion for the IDB and \$865 million for the World Bank, still makes us a major player. Although USAID is no longer the principal donor in these countries, as we were during much of the 1980s, the latest available data (1992) show that we are still the most important bilateral donor, playing a role similar to that of the European countries in Africa and Japan in Asia and the Pacific. LAC countries, as well as other donors, continue to look to USAID as a major source of policy advice and technical assistance. Our strong, day-to-day field presence in the countries where we work gives us insights and influence that the other donors do not have, thus making USAID's role far more important than the dollar amounts of our resources would suggest.

USAID has worked closely with the World Bank, the IDB, the International Monetary Fund (IMF), and the United Nations Development Program (UNDP), often acting as an innovative leader or catalyst on programs related to macroeconomic policy reform, arrears clearance, investment sector loans, and a

variety of reform-of-the state activities. In El Salvador, for example, USAID has cooperated with all four of these donors in a tax-modernization program whose key element was the introduction and successful implementation of a value-added tax. Quite recently, USAID worked closely with the World Bank, the IDB, and the IMF, as well as with the Treasury Department and other U.S. government agencies in developing and successfully implementing a program that made Haiti eligible once again for IFI lending.

USAID also continues to collaborate creatively with other bilateral donors, often permitting the Agency to leverage significant additional resources. For example, in Jamaica, USAID and the Japanese Overseas Economic Cooperation Fund (OECF) are co-financing the design and construction of five infrastructure projects that address major constraints to tourism development. USAID is providing \$5 million in advisory services, while Japan, with no field presence in Jamaica, is lending \$86 million for engineering and construction services. These OECF loans are untied to procurement in Japan, allowing U.S. firms to compete for Japanese-funded contracts.

Collaboration between USAID and other U.S. agencies has included joint meetings with the Health and Human Services Department, the State Department, the Peace Corps, and the Office of National AIDS Policy to develop proposals for the Summit of the Americas, which endorsed USAID's health and population initiative; and joint programs with the Environmental Protection Agency, the U.S. Department of Agriculture, and the U.S. Forest Service to improve environmental impact assessments in Brazil and Central America.

#### **Debt Relief.**

The LAC debt crisis more than a decade ago put the health of the entire international financial system at risk. The measures by which the region pulled itself out of the crisis were politically courageous, but exacted a heavy price in terms of the sacrifices in standard of living demanded of the population. The fruits of these sacrifices are now being felt in the region's renewed growth and access to international capital markets.

Nonetheless, some countries in the region -- Guyana, Jamaica, Nicaragua, and Panama -- still shoulder some of largest debt burdens per capita in the world. For heavily indebted countries, a significant percentage of public sector revenues is diverted toward debt service, and away from social and productive investments. For the poorest countries with large burdens of U.S. official debt, relief through debt forgiveness may be provided under the auspices of the Paris Club. For other LAC countries, such relief is currently limited to rescheduling, also through the Paris Club.

## BOLIVIA

FY 1996 Development Assistance Funds Request:..... \$40,531,000  
FY 1996 P.L. 480 Title II Request:..... \$17,898,000  
FY 1996 International Narcotics Control Funds Request:..... \$30,000,000

Bolivia is important to the United States because: (1) Both countries share a common interest in the democratic process and the promotion of good governance; (2) The international drug trade damages both the United States and Bolivia. We must continue to assist Bolivia to develop alternative crops and employment opportunities to counteract the illegal drug cultivation, production and trafficking; (3) Bolivia generally supports the United States on important issues in international fora, and maintains a relatively open foreign trade regime with low tariffs, free movement of capital and the absence of trade restrictions; (4) Successive Bolivian governments have pursued the kinds of sound economic policies and structural adjustment reforms that underpin and assure productivity and sustainability of development assistance programs; and (5) Bolivia is one of the leaders in Latin America in concern for the environment and protection of biodiversity.

United States assistance over the past 50 years has proven to be a good investment. Bolivia's fragile democracy is now in its 12th year. Bolivia is fast becoming a player in the international community: Bolivian police serve on the international force assisting Haiti's return to democracy, and Bolivia will host the 1996 Hemispheric Summit on Sustainable Development and the Environment. The United States is Bolivia's major trading partner for capital goods, and imports from the United States grew 10.6% a year from 1989 to 1993. The United States continues to help Bolivia --one of the poorest countries in Latin America -- control the scourge of disease and poverty and reduce the unacceptably high infant and maternal mortality rates through innovative family health programs and food assistance.

### The Development Challenge.

USAID is helping Bolivia modernize and confront critical developmental challenges. These development challenges are caused by severe poverty and malnutrition, exacerbated by its position as the world's second largest producer of coca. This strains Bolivia's fragile democratic institutions and hinders sustained economic growth. Since the mid-1980s, a series of democratically elected Bolivian governments have established and maintained a base of solid macroeconomic policies; have moved to deepen stabilization measures; have increasingly addressed the social needs of its poor, predominantly indigenous people; have taken steps to confront the dangers of narcotrafficking to its society, democracy, and economy; and have been in the forefront of reforms to address the sustainable development needs of its people. The Government of Bolivia's (GOB) vigorous pursuit of five priorities (popular participation, capitalization, education reform, judicial reform, and sustainable development) bode well for significant sustainable development advances. USAID works with the Bolivian people and authorities to carry out a bilateral program of financial and technical cooperation to achieve common objectives aimed at improving the lives of Bolivians within a framework of democracy, social justice, and economic opportunity.

### Strategic Objectives (SOs).

USAID has adopted four strategic objectives to pursue those goals in Bolivia and to advance USAID's worldwide goals of building democracy; encouraging broad-based economic opportunity and access; stabilizing population growth and protecting health; and protecting the environment. These four strategic objectives were carefully chosen and refined to establish a means for significantly improving Bolivia's sustainable development achievements and the prospects for continued improvements in the future. They were selected taking into account the activities of other donors and the comparative advantage of USAID as well as Bolivia's needs and priorities. For example, although there is universal

agreement that major improvements in Bolivia's primary education system are needed, USAID has chosen to leave this critical area to the World Bank-led effort, which has coordinated the provision of over \$178 million in international assistance for the first phase of Bolivia's education reform, while USAID concentrates its financial and personnel resources on the four strategic objectives summarized below.

**BUILDING DEMOCRACY (\$2,824,000 of which \$2,124,000 is DAF and \$700,000 is INCF).**

**SO 1. Improved effectiveness and accessibility of key democratic institutions and practices (\$2,824,000 of which \$2,124,000 is DAF and \$700,000 is INCF).**

Sustainable solutions to the problems of development lie primarily in the creation of institutions which allow people to participate fully in the political and economic life of their country. USAID's focus on democracy is particularly timely given Bolivia's commitment to strengthen democracy as evidenced by the recent passage of very important laws which USAID is assisting the GOB to implement. The Popular Participation Law allocates significant funds on a per capita basis to municipal governments and mandates citizen participation in the municipal budgeting and project planning process. The recent amendment of the Constitution to create the Judicial Counsel is potentially the most far-reaching manifestation of Bolivia's intent to democratize, depoliticize and upgrade the judiciary. This high level counsel has been assigned all judicial appointment, screening, selection and personnel system responsibilities as well as responsibility for management of the judicial branch budget.

Activities. Assistance is focused on strengthening the justice system, particularly on improving the efficiency and fairness of criminal prosecutions (drug-related and other) while assuring an adequate defense to the indigent accused; consolidating legislative staff services in the Bolivian Congress and creating channels for direct constituent access to members; supporting local level empowerment and the participation of the predominantly indigenous majority in the local government decisions which affect them; and improving the effectiveness, transparency and financial integrity of public institutions i.e. electoral courts, the Ministries, the Congress, and the Judiciary.

Democracy is ultimately based on transparent and accountable public institutions, achieved through widespread open debate, decision-making and compromise, and effective participation of active grassroots organizations in government. USAID's assistance to the National Electoral Court has led to increased confidence in the electoral process through training and support for modern voter verification systems. USAID is supporting the Bolivian Office of Public Defenders and neighborhood conciliation centers to bolster human rights, access to justice by the indigent accused and, in collaboration with other donors, justice sector reform. USAID support to bicameral, non-partisan, legislative support services has led to an improved budget formulation process, as well as enhanced bill drafting and information services in Congress.

Related Activities. The P.L. 480 food for work program is effectively strengthening neighborhood empowerment and citizen participation in community decision making.

Indicators. USAID indicators for measuring progress toward achieving this objective are to: (1) increase the number of cases completed within legally prescribed time periods in first-level criminal courts from essentially nil in 1994 to 20% in 1996; (2) increase the number of alternative dispute resolution centers from three in 1993 to 15 in 1996; (3) increase the number of laws originating in Congress from two in 1994 to six in 1996; and (4) increase the number of functioning municipalities incorporating popular participation from nil in 1994 to 20% in 1996.

Feasibility and Cost-effectiveness. USAID is uniquely poised to offer meaningful and timely assistance in support of the GOB's major popular participation law enacted in 1994. USAID resources appropriately applied over the next five to ten years can have significant impact on extending democratic practices; approaching universal voter registration (reaching the unregistered third of Bolivia's eligible voting population, mostly rural women); support for a truly representative Congress;

and human capital development at the grassroots level, such as training PVOs and local government officials. The first municipal elections to be conducted under the new Popular Participation Initiative are scheduled for December 1995. The democratic development and citizen participation, human resources for development, and Bolivian peace scholarship projects will directly impact on the success of the GOB's key reform initiatives.

Progress in 1993-1994. The free and open election of new legislative and executive branches of government in June and municipal elections in December 1993 culminated an unprecedented 12 years of democracy in Bolivia. The success and transparency of the elections was due in significant part to the success of USAID assistance to the National Electoral Court, which included training of 98,000 polling jurors. The general acceptance of the record number of voter entries reflects the widespread confidence in the electoral courts and modern voter verification systems supported by USAID. The Popular Participation Law, viewed as the most important redistribution of political and economic power since Bolivia's 1952 revolution, is one of the centerpieces of the GOB's new policy and is indicative of its commitment to democracy. The democratic development and citizen participation project was conceived to be directly supportive of this new government initiative. For the first time, Bolivia has established an independent Ministry of Justice and budget resources for public defense. USAID is furthering human rights in Bolivia through its support to the Office of the Public Defenders, as well as its support of pilot activities through the Inter-American Bar Foundation to establish neighborhood conciliation centers. Significant advances were made with the Bolivian legislature by support provided through the State University of New York. In addition to directly assisting the Vice President in planning for carrying out his responsibilities as President of the Congress, bicameral, non-partisan, legislative support services were established, including a Budget Office, a Bill Drafting Service, and an Information and Research Center.

Donor Coordination. Collaboration with other donors continues through joint planning and implementation of parallel USAID, World Bank, Inter-American Development Bank, and other bilateral donor financing of justice sector and popular participation reform. USAID is working to ensure that a planned World Bank-supported justice sector reform program is complementary to and supportive of USAID's work in this area.

Constraints. Bolivia's fragile democratic tradition manifests itself in limited popular participation in local and national government decision making, justice denied through its delay by the lengthy time needed to resolve criminal and civil legal cases, and one-fourth of the eligible voters remaining to be registered.

**ENCOURAGING ECONOMIC GROWTH (\$44,197,000 of which \$14,897,000 is DAF and \$29,300,000 is INCF).**

**SO 2. Expanded economic opportunity and access (\$36,338,000 of which \$7,038,000 is DAF and \$29,300,000 is INCF).**

Bolivia's pervasive poverty makes it susceptible to demagogues who may threaten democracy, and to the pernicious lure of narcotraffickers. Endemic poverty also makes sustainable improvements in health conditions extremely difficult, and conservation of natural resources a luxury in the short-term. Bolivia's primary hope for sustainable, and equitable, increases in incomes is to increase the Bolivian citizen's opportunity for and access to legal employment. USAID's objective is to assist Bolivia, especially the Bolivian poor, to accomplish that by supporting activities which will generate the jobs and incomes which are the most immediate need for Bolivia's poor, and which will provide viable economic alternatives to coca cultivation and processing.

Activities. USAID will manage \$30,000,000 of International Narcotics Control Funds to support agricultural research, extension and marketing, and infrastructure for the Chapare's sustainable non-coca growth and to inhibit migration to coca-growing areas; an administration of justice activity; activities in drug awareness and prevention; balance-of-payments support for debt servicing and

counter-narcotics policy dialogue; and alternative development rural electrification extending electrification grid to promote licit business development in the Chapare.

Helping Bolivia to increase the opportunities for legal employment is the key to sustainable development and marginalizing the influence of narcotraffickers. This assistance supports national programs for microenterprises, financial sector and pension reform, and nontraditional exports, as well as licit agricultural production and marketing and related infrastructure activities in the principal region of illegal coca production and employment. Also included is balance of payments support which contributes to economic stabilization and growth by providing foreign exchange for debt relief and by supporting the ongoing policy dialogue on counter-narcotics and economic reform issues.

Other Activities. P.L. 480 Title II resources advance Bolivia's food security, monetization, and food for work programs and contribute toward meeting the economic opportunity objective.

Indicators. The indicators for measuring progress toward achieving this objective are: (1) a decrease in the size of illicit coca and cocaine exports as a percent of the legal economy from 83.7% in 1988 to 10.3% in 1996; (2) a decrease in the size of the illegal coca economy as a percent of the legal economy from 8.5% in 1988 to 1.2% in 1996; (3) an increase in total value of nontraditional exports from \$262 million in 1991 to \$425 million in 1996; (4) an increase in gross domestic product (GDP) growth rate from 3.0% in 1988 to 4.9% in 1996; and (5) an increase in the number of poor households not served by traditional financial institutions (development and commercial banks), receiving financial services under USAID-assisted programs from 62,000 in 1993 to 125,000 in 1996.

Feasibility and Cost-effectiveness. Currently, only about 7% of Bolivia's population has access to banking services. USAID's ongoing micro and small enterprise project supports Bolivia's credit union system and is enhancing the viability of a handful of microfinance institutions in preparation for a major expansion of this sector over the next several years to broaden access to financial services. Experience and the desire to maximize the number of beneficiaries from USAID microfinance assistance led to the dramatic new approach of the microfinance project scheduled to start in FY 1995. Although USAID-supported new credit technologies for microenterprises proved their merit in periurban areas, and currently are serving around 60,000 people (more than the total number of customers from all the rest of Bolivia's commercial banks), limited donor funds indicate the need for a radical change in order to meet the credit needs of those heretofore outside formal financial markets. Grant financing for unlicensed microfinance credit institutions at most can leverage one or two-to-one times its value. Licensed, regulated, and supervised institutions, however, can leverage up to 11 or 12 to 1 times their equity financing. USAID estimates Bolivia's microfinance market at about 500,000 families with a demand for some \$250 million. With the leveraging of existing equity and the provision of new equity financing and institutional support to microfinance institutions and with the help of the Superintendency of Banks and Financial Institutions in regulating the system, we believe we can help microfinance institutions reach half these families by the end of the decade.

USAID is committed to the sustainable alternative development approach of creating jobs and income throughout the Bolivian economy and reducing the overall macroeconomic effect of coca production and trafficking. The Cochabamba regional development project is USAID's centerpiece counternarcotics effort and has achieved measurable success in promoting alternative income and employment sources with substantial and growing markets being opened for licit products including an increase of licit crops by 31.5% in 1994.

Progress in 1993-1994. Results have been positive across the board. The private sector continues to respond slowly but surely to the country's relatively new environment of stability and free market policies. Private investment has shown modest growth and growth in nontraditional exports has been very strong. In the Chapare, the principal source of illicit coca, recent satellite imagery shows remarkable increases in licit crops and in early 1993 over 60% of the land under crops was estimated to be planted to licit products. The Cochabamba valleys, the source of much of the labor for the illicit

coca industry, are now well served with all weather roads with good bridges and drainage, giving most communities reasonable access to regional market centers. USAID-supported activities are expanding Bolivia's dynamic microfinance sector. The small and microenterprise project and the P.L. 480 Title II food monetization program continued to support microenterprise training and credit programs for women in poor rural and periurban areas of the Altiplano and across the country. Permanent jobs created through USAID-supported programs doubled in 1993 to 17,000, nearly twice the target. Macroeconomic performance improved in 1994 over 1993. The 4% increase in GDP growth exceeded earlier projections largely due to better than expected export performance.

Donor Coordination. USAID remains the major donor in support of sustainable alternative development activities in Bolivia although the United Nations, Germany and other bilateral donors have stepped forward to assume greater responsibility in this area. USAID is the recognized leader in the microfinance sector and has worked closely with the World Bank in developing the proposed \$16.3 million financial markets loan.

Constraints. The limited access of large segments of Bolivia's citizens to economic opportunities threatens broad-based economic growth as well as perpetuating poverty and undermining Bolivia's fragile democracy. Equitable economic growth is constrained by the economy's reliance on a few traditional, mostly mineral, exports; continued heavy dependence on the illegal coca economy (23.0% of legitimate exports and 1.9% of the legal economy in 1993); the paucity of financial services available to poor households; the lack of sufficient employment (especially in legal activities in rural areas); and the absence of adequate retirement and pension systems for most people.

In addition to this objective, USAID assists Bolivia's economic growth through activities that address global threats to health in Bolivia, as discussed below.

#### **STABILIZING POPULATION GROWTH (\$17,997,000)**

**SO 3. Improved family health throughout Bolivia (\$25,856,000, of which \$17,997,000 DAF is for Stabilizing Population Growth and \$7,859,000 DAF is for Economic Growth).**

This assistance contributes to improving the family health of Bolivians, at present among the worst in Latin America. Particular attention is paid to women of reproductive age, infants and children under five, as well as the special needs of the economically disadvantaged. In addition to improving the capacity of the human resource base, the health program contributes to political stability and economic growth.

Bolivia benefits from the presence of numerous, dynamic and growing nongovernmental organizations (NGOs) active in providing health services throughout the country. USAID has worked extensively with NGOs, and in recent years, cooperation with the governmental sector has increased. The present government has adopted ambitious plans which will potentially change the face of the health sector in Bolivia. USAID is adapting its assistance to these new directions, and sees great potential in the reforms for improved accountability and management within the sector. USAID is building on its successful experience with primary health care, cost-recovery systems, technical support to national child survival programs, and a new openness in family planning to expand its support to improve family health in Bolivia through NGO, private sector and governmental channels.

Activities. USAID's family health strategic objective supports interventions to ameliorate immediate threats to the health status of women and children who represent the most disadvantaged groups in society due to the risks caused by pregnancy, birth and sick child care responsibilities, and their vulnerability to disease and malnutrition. Its focus on the family targets the locus where human and economic investments come together. Global threats to health, such as human immunodeficiency virus (HIV) infection and acquired immuno-deficiency syndrome (AIDS), are being addressed before they reach epidemic proportions as are health problems unique to Bolivia, such as Chagas disease. USAID



provides almost 80% of donor assistance to the national family planning program, as well as nearly all contraceptives. USAID also assists the GOB national communication campaign on family planning, which is expected to increase contraceptive use and demand for services; the reinforcement of direct service delivery by training doctors, nurses, and social and community workers in maternal health services; and the promotion of good maternal health policy by the GOB.

Related Activities. These efforts are strengthened by PL 480 Title II resources which provide substantial support to improved maternal and child health and food security of the poorest in the country.

Indicators. The indicators for measuring progress toward achieving this objective are to: (1) decrease the infant mortality rate from 80 deaths per thousand live births in 1992 to 64 in 1996; (2) decrease the child mortality rate from 142 deaths per thousand live births in 1984 to 84 in 1996; (3) decrease maternal mortality from 480 deaths per hundred thousand in 1982 to 240 in 1997; (4) increase modern contraceptive prevalence from 12.2% in 1989 to 23.4% in 1996; and (5) increase total contraceptive prevalence from 30.3% in 1989 to 48.0% in 1996.

Feasibility and Cost-effectiveness. There has never been a more positive environment for rapid advancements in family planning. For the first time, in 1994 the GOB officially adopted an ambitious contraceptive prevalence target in its national health plan and has set other policies favoring a rapid expansion of family planning services. The private and nongovernmental sectors are both planning for an expansion of services to meet an unmet demand for family planning services among women of reproductive age.

Progress in 1993-1994. Strategic objective-level indicators continue to show improvements in the health of Bolivians, and USAID assistance has made a significant contribution to this progress. Using well known technologies such as vaccination, and promoting the use of oral rehydration therapy, Bolivia has cut the infant mortality rate in half from over 160 to below 80 in less than 15 years, an impressive achievement. The present rate is still the highest in the region. While vaccination coverage rates have risen appreciably, accessibility and use of oral rehydration therapy is still low. USAID, in conjunction with other donors, is promoting the local production, and commercial distribution of oral rehydration salts to complement government programs, and the use of proven adult education and social marketing techniques can further extend the use of this life-saving therapy. Through a debt-for-development exchange, USAID provided a Bolivian network of child survival NGOs resources to strengthen the local network and provide child survival programs providing child and maternal health services to the poorest 20% of Bolivia's population. The USAID-supported Interactive Radio Learning Program is cited in the 1993 *World Development Report* by the World Bank as an example of success with health education through radio lessons.

Donor Coordination. USAID directly coordinates family health activities with the United Nations Children's Fund (UNICEF), Pan American Health Organization, World Bank, Inter-American Development Bank, and bilateral donor programs. The Interagency Coordinating Committee for the Expanded Program of Immunization is one of the first and most successful examples of donor coordination in the health sector in Bolivia.

Constraints. Democracy and preservation of the environment become longer-term goals when 75 to 80 of every 1,000 babies born die before their first birthday, and the ability to retain or be productive in a job is severely constrained when malnutrition is so rampant that it is associated with four out of every five deaths of children under five.

In addition to addressing population growth, this objective also supports economic growth through its health-related activities.

**PROTECTING THE ENVIRONMENT (\$5,513,000 DAF)**

**SO 4. Reduced degradation of forest, soil and water resources, and protection of biological diversity (\$5,513,000 of DAF).**

Bolivia's geographic position in the heart of South America makes it a country unusually rich in ecological diversity. The country's rich, carbon-absorbing forests and their biological diversity are being destroyed at an alarming rate, however, even before they -- or their role in maintaining the global balance -- are fully known or understood. USAID's concern for Bolivia's environment goes beyond the country's borders. Its program focuses directly on two of the top global priorities for the environment: conservation of biological diversity and mitigation of global warming.

Activities. Assistance in this area focuses on reducing degradation of Bolivia's forest resources and the biological diversity they contain and on improving soil and water management practices. Support is provided to identify environmentally-friendly uses for forest resources ("eco-certification" of tropical forest products) and to discourage burning of forest lands for other uses. Management for results helped in developing the concept for the Chaco indigenous resource management project, proposed for FY 1996, which establishes territorial boundaries, legal status and formalizes recognition of the indigenous population in the Government. Biodiversity conservation activities will be targeted directly to indigenous peoples' management and enhanced involvement in environmental decision-making.

Related Activities. Under the Environment for the Americas initiative, USAID works closely with the GOB and the small and still inexperienced community of environmentally conscious Bolivian NGOs and organized community groups to improve rural and urban environmental management and to improve policy making, planning and environmental awareness.

Indicators. The USAID indicator for measuring progress toward achieving this objective is to increase the number of hectares under improved management. For 1994, the number of hectares estimated was 1,000 and the project surpassed that goal six-fold. By 1996, the number of hectares is expected to increase to 50,000. USAID expects current targets will be substantially exceeded. This will result in an important decline in the deforestation rate, an increase in biodiversity protected, and a decline in losses in soil and water quality and quantity.

Feasibility and Cost-effectiveness. Development experience underscores the fact that truly sustainable economic development requires careful resource management and investment for the long term, although this can be difficult for a poor nation like Bolivia. Although difficult, attention to the sustainable use of its natural resources now is essential if future generations are to have a chance at sustainable development. Without such investments today, Bolivia's children will inherit a biologically impoverished nation tomorrow, and fall further into the downward spiral of poverty -- unable to access productive, legal jobs; to improve their health status; or to support the challenges inherent in a vibrant, participatory democracy. Forestry activities will help promote eco-certified products.

Progress in 1993-1994. In 1994, the GOB created a new and powerful Super-Ministry of Sustainable Development and the Environment -- using the recommendations of an environmental team from Vice President Gore's office as a blueprint. Important legislation, now under development with USAID support, includes a progressive new biological diversity law, a new forestry law, and a new land tenure law. USAID-supported training through the Bolivian Peace Scholarship and the Bolivia Forestry Management (BOLFOR) project is increasing the human resource base required for sound environmental management.

Donor Coordination. The World Bank continues to be a major player with the Global Environmental Fund and Environmental Technical Assistance projects. Switzerland, Canada, Holland, Inter-American Development Bank, and the United Nations Development Program are also becoming increasingly important donors in this area.

**Constraints.** Sustainable resource use will require improved policies, technologies, institutions, and informed public participation. The great bulk of Bolivia's forest resources and biological diversity lie outside parks and protected areas. This means these forests must be worth more to local peoples as forests than through conversion to other uses, if the forest cover is to be maintained. This will require new forest policies to encourage investment in forest management, with new legislation governing forest use. It also will require widespread adoption of improved, low-impact, forest product harvesting practices, with new technologies and additional income streams.

**PROMOTING HUMANITARIAN ASSISTANCE (\$17,898,000 PL 480 Title II).**

USAID's PL-480 Title II program has shown to be an excellent resource for fulfilling the Agency's Humanitarian Assistance mandate. Because it is a land-locked country encompassing three distinctly different geographical and climatic zones, Bolivia is prone to natural disasters. Typical disasters are droughts, floods, mud-slides, and severe hailstorms; some occur simultaneously. USAID, through its cooperating sponsors, Civil Defense and other GOB entities, has a rapid and well-developed network to provide emergency food assistance to the families affected. Currently, the country is undergoing flooding in the eastern part of the country (USAID provided 152 MT of emergency food) and severe drought in the western part of the country (USAID provided 308 MT). The Office of Foreign Disaster Assistance is providing an emergency grant for water cisterns to assist in the latter emergency, and also regularly uses Bolivia as its site for regional and international seminars on disaster assistance and emergency preparedness.

**Other Donor Resource Flows.** In FY 1994, the United States was the largest bilateral donor to Bolivia, providing 40% of all bilateral assistance and 15% of all total aid. Other significant donors were the Inter-American Development Bank, World Bank, Andean Development Corporation, United Nations, European Community, Japan, Germany, and Spain.

**BOLIVIA**  
**FY 1996 Program Summary**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
<b>1. Improved effectiveness and accessibility of key democratic institutions and practices</b>						
Dev. Assistance Fund				2,124,000		2,124,000
Int. Narc. Control Fund				700,000		700,000
<b>2. Expanded economic opportunity and access</b>						
Dev. Assistance Fund	7,038,000					7,038,000
Int. Narc. Control Fund	29,300,000					29,300,000
<b>3. Improved family health throughout Bolivia</b>						
Dev. Assistance Fund	7,859,000	17,997,000				25,856,000
<b>4. Reduced degradation of forest, soil and water resources and biological diversity protected</b>						
Dev. Assistance Fund			5,513,000			5,513,000
<b>P.L. 480 Title II</b>					17,898,000	17,898,000
<b>Total</b>	<b>44,197,000</b>	<b>17,997,000</b>	<b>5,513,000</b>	<b>2,824,000</b>	<b>17,898,000</b>	<b>88,429,000</b>

USAID Acting Mission Director: Lewis Lucke

## BRAZIL

**FY 1996 DEVELOPMENT ASSISTANCE FUND REQUEST:.....\$16,927,000**

Brazil is critically important to the U.S. national interest because of its vast size, huge population and economic potential. These attributes make Brazil the predominant power in Latin America, a strategic ally of the U.S. and a valuable trading partner. The U.S. interest in long-term sustainable development in Brazil is hampered by Brazil's past performance of poor economic management, an extremely uneven distribution of income, and serious problems in issues of global importance such as the environment, population and health care. Recent elections indicate a renewed commitment by the Brazilian government to resolve long-standing constraints to development, such as hyper-inflation, weak democratic institutions, and social inequality. Modest U.S. assistance can play a catalytic role in the economic and social transformation that Brazil is initiating.

### **The Development Challenge**

USAID assistance to Brazil is carefully targeted in areas of critical need for the Brazilian development process and where the U.S. has a comparative advantage in technical assistance: environmental protection, women's health, and AIDS prevention.

Deforestation in the Amazon is a problem which has elicited considerable concern internationally. USAID is supporting environmentally sound land use and systems for sustainable management of cleared and forested areas in the Amazon. These programs are critical to stopping the destruction of the Amazon rain forest and providing economically viable alternatives for inhabitants of the area.

Health care in Brazil is characterized by a weak service delivery system that neglects preventive care and concentrates resources on expensive curative care for select populations. USAID is assisting the development and implementation of service delivery systems, public and private, for low-income people, that emphasize preventive services, especially in maternal and child health. Improving the provision of family planning services is a priority.

Brazil has the fourth highest number of reported acquired immune deficiency syndrome (AIDS) cases in the world and it is estimated that one million Brazilians are infected with human immunodeficiency virus (HIV). In conjunction with local health departments and nongovernmental organizations (NGOs), USAID provides technical assistance in the implementation of sexually transmitted diseases (STDs)/HIV prevention programs for populations at high risk of infection. Using technical experts from key U.S. institutions, USAID facilitates the development of appropriate educational and informational campaigns, improvement of service delivery systems and the training of critical health care personnel to prevent further spread of HIV/AIDS.

### **Strategic objectives (SOs)**

The USAID program has three strategic objectives in the areas of environment, family planning, and AIDS prevention. Eighty percent of the USAID program is implemented by American private voluntary organizations (PVOs) and Brazilian NGOs carrying out programs in poor communities in the Amazon, the impoverished Northeast, and the slums of Sao Paulo and Rio de Janeiro.

**STABILIZING POPULATION GROWTH.....(\$ 7,238,000)**

**SO 1. Increase access to contraceptive methods and integrated family planning services in order to improve maternal health (\$7,238,000).**

Brazil's high aggregate contraceptive prevalence rate of over 55% exists despite regional variations and serious distortions in the family planning sector that have important implications for maternal health. Over 90% of contraceptive users rely on only two methods, female sterilization and oral contraceptives. USAID's family planning strategy focuses on improving the general poor quality of existing family planning services which have a negative impact on maternal health, and ensuring that a balanced, high-quality program exists in target areas by the end of this final assistance period, 1993-2000. The USAID strategy concentrates on expanding the limited range of family planning methods available, increasing information about maternal health care, and integrating family planning with women's health care delivery systems in the private and public sectors.

Activities. To improve quality of family planning services, activities focus on training of providers in all methods and quality of care, providing contraceptive commodities, and technical and financial support of service delivery strategies. To improve sustainability of family planning delivery systems, assistance and training are provided to develop commodity distribution systems to replace USAID donated commodities, support linkages between the public and private sectors for family planning, and improve public sector management of family planning services. These activities have been concentrated increasingly in two target states in Northeast Brazil, Bahia and Ceará, which have a combined population of over 20 million. USAID-supported cooperating agencies are providing assistance to state-wide maternal health and family planning programs. Training and technical assistance is provided in maternal health, strategic planning and evaluation of service delivery, and provision of information to clients. These programs are led by the state public health authorities and include efforts by private sector organizations. The provision of contraceptive commodities is being phased over to non-USAID sources, to ensure a regular supply of commodities by the year 2000, when USAID will phase out its family planning assistance to Brazil.

Related Activities. Complementing the agency goal of stabilizing population growth, the USAID program also focuses on protecting human health through a strategic objective of reducing rates of sexual transmission of HIV and STDs. The major interventions are STD prevention and control, through strengthening the local capacity to provide treatment and prevention services; behavior change communication, including the use of various types of media and the development and distribution of information, education, and communication materials regarding 2STD treatment, partner reduction, and condom use for those at high risk of HIV infection; and condom distribution, in conjunction with the Brazilian government and through social marketing, to increase the availability and reduce the price of condoms, and encourage regular and correct condom use.

Indicators. Indicators to measure progress in achieving this objective include positive changes in the following measures: (1) per cent of public sector service delivery points offering family planning services and (2) per cent of population that has available full range of contraceptive methods.

Feasibility and Cost-effectiveness. USAID family planning assistance carefully developed with U.S. based PVOs and local NGOs is already achieving results. Use of low prevalence methods such as IUDs and condoms is increasing in target areas. Donor coordination, particularly with the United Nations Family Planning Program (UNFPA), is highly effective and leverages USAID's resources. USAID's concentration in one geographic region and our links with private sector providers make our assistance sustainable and cost effective.

Progress in 1993-1994. Assistance has been provided to the Ceará and Bahia state programs in baseline data collection (situation analysis of public and private reproductive health services); strategic planning; training of service providers; and the provision of commodities. In Bahia, family planning

services have been extended to 200 out of the 400 municipalities in the state in 1994. A Commodity Procurement Organization has been set up with AID funding to import and sell family planning commodities. The International Planned Parenthood Foundation affiliate in Brazil, BEMFAM, and the largest family planning service provider in the country, has set up a commercial plan to market condoms which will help it achieve sustainability levels close to 90% by the year 2000.

Donor Coordination. UNFPA and USAID are providing coordinated support for a new innovative program in the northeastern state of Ceará which focuses on maternal health. Like Ceará's program, which won United Nations Children's Fund (UNICEF) awards for reducing infant mortality, this program could become a model for the rest of Brazil.

Constraints. USAID is by far the largest donor in the area of family planning in Brazil. Its present strategy foresees a complete phase out by the year 2000. Traditionally, the Government of Brazil has an ambivalent attitude toward family planning services which are constitutionally guaranteed, but poorly funded and often not actually available in the public health care system. Methods normally available in other countries including Norplant and Depo-Provera are still illegal in Brazil. USAID's success in convincing two large Northeast states to adopt comprehensive health care programs may signal a change in attitude that the new federal government will expand.

**PROTECTING THE ENVIRONMENT.....(\$5,403,000)**

**SO 2. Increase the dissemination of environmentally and socioeconomically sustainable alternatives to deforestation, and renewable energy practices beyond target areas (\$5,403,000).**

Brazil is considered a major contributor to greenhouse gas emissions because of deforestation and burning that take place to a large extent in the Amazon. By disseminating sustainable development alternatives throughout the Amazon region, CO<sub>2</sub> emissions are reduced and biodiversity is conserved, while stable economic growth is encouraged through a participative, democratic local-level approach. Although the Brazilian energy sector contribution to global warming is considered minimal at present, projected growth and saturated hydroelectric generation potential will require expanded use of renewable energy sources and increased energy efficiency. An additional program in renewable energy and energy efficiency is scheduled to start implementation in FY 1995 to address these needs. The proposed actions focus on private power initiatives in Brazil and will also provide opportunities for the U.S. commercial sector to participate in energy modernization.

Activities. A number of U.S. agencies and NGOs implement the environment program through agreements with in-country partners. Program efforts focus on activities at local, state, and regional levels designed to reduce deforestation in the Brazilian Amazon by providing sustainable alternatives. Protected area management is developed in two major national parks and two Extractive Reserves. Forest management alternatives for low-impact harvest of upland timber is researched in the largest timber-harvesting region in the Eastern Amazon. Agroforestry alternatives for restoring productivity to degraded cleared areas are developed in a participatory approach with small holders. Natural resource policy and environmental education are stressed at federal and state levels to judges and local educators to promote wise forest resource use. The proposed energy sector activities would be aimed at working with the private sector on renewable energy efficiency, independent power production and training.

Related Activities. Joint action of four USAID funded Global Climate Change (GCC) grantees (World Wildlife Fund (WWF), Environmental Law Institute (ELI), Environmental Protection Agency (EPA), and U.S. Department of Agriculture/Forest Service) together with Brazilian trainers, presented two environmental assessment training courses, in May and October 1994, that reached key individuals from all nine Amazon states. The trainees were committed to passing on understanding of environmental assessment procedures to their home institutions and have helped prevent a public license request for an ill-conceived industrial development project in the Amazon. In October 1994,

ELI delivered a seminar in Manaus, Amazonas State, to 35 federal and state judges on various aspects of environmental law and economics in Brazil. The seminar covered national environmental policy laws, enforcement mechanisms, citizen suits, environmental impact assessment and protected areas legislation. For most judges, this was the first exposure to the use of civil procedure in environmental cases. These activities demonstrate the importance of public participation in natural resource management issues and highlight the role environmental activities should play in developing civic procedures and institutions.

Indicators. The following indicators measure progress in achieving this objective:

- (1) Establish recommendations for forest policy in the Amazon to be adopted by federal agencies by 1996;
- (2) Establish wood products labeling criteria to be adopted by labeling organizations by 1995;
- (3) Increase number of hectares and per cent of land under improved management systems within target cleared areas;
- (4) Increase number and per cent of adopters using improved management systems within target cleared areas;
- (5) Increase number of hectares and per cent of land under improved management systems within target forested areas;
- (6) Increase number and per cent of adopters using improved management systems within target forested areas; and
- (7) Increase number of persons trained in target NGOs and government organizations.

Feasibility and Cost-effectiveness. The success to date of certain pilot efforts under the GCC program and the fact that much of this work is the best (if not the only) work in the Amazon on many key fronts increases the importance of disseminating these successful approaches. The program outcomes in the GCC program were slightly modified to better reflect the coordinated activities underway in the Brazilian Amazon. These refinements included new program-level indicators for the USAID GCC strategy. Although behavioral modification and the sustainability of management systems are difficult to quantify, it was decided that monitoring the area of land, the percentage of land area, and number and percentage of adopters of improved management systems best reflect positive changes necessary to conserve the Brazilian Amazon.

Progress in 1993-1994. USAID activities contributed to overall reduction in deforestation in the Brazilian Amazon in 1993-94, the third straight year that the rate of deforestation has decreased. In target forest communities, 46% of community members adopted improved agroforestry management systems in their previously cleared areas, decreasing cleared areas from 16.1% to 15.3% of the total area occupied by the communities. Brazil's environmental agency, IBAMA, accepted the first ever proposal for co-management of a National Park together with Fundação Vitoria Amazonica, an NGO supported by WWF under the USAID GCC program. An award-winning video production (best environmental video in 1994) featuring sustainable, low-impact timber-harvesting techniques developed by the Institute for Man and the Amazonian Environment (IMAZON), and a manual describing the sustainable management techniques is nearing completion as the first practical guide to reduce timber harvest waste in the Amazon. In response to two successive drought years, researchers at the Amazon Institute for Environmental Research (IPAM) developed together with small land holders strategies for the protection to avoid accidental forest fires and economic loss to planted agroforestry systems. A marketing manual for non-timber, forest products (NTFPs) was produced and has been distributed to groups assisting local producers aggregate value to improve local income distribution.

Donor Coordination. USAID has actively participated in emergency assistance to two science centers in the Amazon, through the Group of Seven (G-7) pilot program to Conserve the Brazilian Rain Forest, managed by the World Bank. USAID staff and several of its PVO partners have played major roles in the various World Bank-led missions to develop this \$250 million G-7 program. GCC pilot projects and applied research programs in agroforestry and rehabilitation of degraded lands have been used as models for the G-7 program.



**Constraints.** The USAID GCC program continued to make valuable contributions to the development setting of the Brazilian Amazon despite reductions in USAID funding during FY94. Local level impact has been significant, but since the GCC program operates mainly through NGO partnerships and not directly through Brazilian government programs, the opportunity to expand on success of the program has been limited by the reach of NGOs with limited funding. The G-7 pilot program to Conserve the Brazilian Rain Forest, which functions through official government channels, is now in its fourth year of negotiation with no money yet spent on local level actions. Brazil has also been reluctant to implement a national action plan that addresses greenhouse gas emissions, preferring to continue studies of sources and sinks of emissions.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH .....(\$3,768,000 including \$559,000 under cross cutting issues.)**

**SO 3. Reduced rates of sexually-transmitted HIV in target populations in two geographic regions of Brazil (\$3,209,000).**

Brazil ranks fourth among countries reporting AIDS cases (55,500 reported AIDS cases as of December 1994). It is estimated that over one million Brazilians are currently infected with HIV, with 60% of the cases sexually transmitted and 58% in the age group 25-34. High-risk groups, such as prostitutes, show accelerated HIV transmission rates; in a 1991 seroprevalence study the infection rate for prostitutes in three major cities of São Paulo state averaged 18%.

**Activities.** The major vehicle for implementing this strategic objective is the USAID Regional AIDS Prevention and Control Project (AIDSCAP), which in Brazil focuses on four groups with high-risk behavior (commercial sex workers, men who have sex with men, men away from home, and STD patients) in the states of São Paulo and Rio de Janeiro. The five-year budget totals \$10.3 million, 65% of which is distributed among the three major program areas of STDs, Behavior Change Communication (BCC), and condom distribution among the four target populations. The program includes supporting interventions such as logistics management to improve condom and STD drugs supply, private sector leveraging, and behavioral research grants.

**Related Activities.** The program includes supporting interventions such as logistics management to improve condom and STD drugs supply; private sector leveraging to promote AIDS prevention activities in the work place; and a behavioral research grants program focusing on populations at risk. Smaller amounts of support are provided to the Ministry of Health (MOH), PVOs, and local NGOs to strengthen their capacity to implement AIDS prevention activities. Policy reform is a critical activity, especially in the area of condom availability. Issues such as importation, taxation and tariffs, and domestic regulation are addressed under policy reform. Consultants financed under our AIDSCAP program were instrumental in designing the social marketing, condom procurement, and logistics management components.

**Indicators.** The following indicators measure achievements of this objective:

- (1) HIV seroprevalence rates in target populations.
- (2) STD incidence and prevalence over time.
- (3) Condom use.
- (4) Number of partners.

**Feasibility and Cost-effectiveness.** A recent review of the AIDSCAP program found impressive progress to date and affirmed the current strategy and scope of activity. The Brazil AIDSCAP program was the first major program initiated in Latin America and is among the most advanced in USAID's global attack on HIV/AIDS. Working in conjunction with large NGOs, state public health authorities, private sector employers and the World Bank funded national STD/AIDS prevention program, USAID is able to leverage resources and use our relatively limited funds in projects in which we have a

comparative advantage.

Progress in FY 1994. The AIDSCAP Brazil office developed 14 subagreements with NGOs, state governments and the private sector. The major achievements to date are improvement of STD prevention and control services in the public health service, through strengthening the local capacity to provide treatment and prevention services; expansion of behavior change communication, including use of various types of media and the development and distribution of materials regarding STD treatment, partner reduction and condom use; and design of a logistics system for the improved public sector distribution of condoms and STD drugs, designed in conjunction with the Brazilian government. A major achievement was the reduction in Brazilian taxes and tariffs on condom sales, which lowered prices considerably. As a result, condom sales are increasing.

Donor Coordination. USAID has hosted several local meetings in which donors to AIDS prevention activities have shared information and compared progress. USAID and MOH staff worked together to devise a training program to improve the efficiency and effectiveness of local NGOs that work in AIDS prevention. The course is now being offered in Brazil, funded by the MOH. Consultants financed under our AIDSCAP program were instrumental in designing the Logistics Management component of the national STD/AIDS prevention program.

Constraints. Protectionist legislation requires imported condoms to undergo testing not required of Brazilian manufacturers and at standards that differ from the international standards accepted by most countries. These tests delay commodity imports and make unpredictable a regular supply of condoms to our programs. The World Bank financed national STD/AIDS program is moving rapidly on some fronts, but is showing no action on important components such as condom social marketing and AIDS prevention in the workplace.

USAID also assists Brazil's economic growth objective through activities in economic policy described below.

**CROSS-CUTTING ISSUES.....(\$1,077,000).**  
(Includes \$559,000 of Economic Growth and \$518,000 of Democracy.)

Democratic Initiatives. The USAID democratic initiative program is a daunting task in a country as large as Brazil. However, USAID's experience in other sectors clearly demonstrates that a carefully prioritized program can have significant impact with carefully tailored support to the continent's largest democracy. Included in this program, USAID plans to provide continued program focus on Brazilian government accountability and transparency in governance and respect for internationally recognized labor rights.

Strengthening Economic Policy. USAID offers Brazil's public and private sectors an economic policy training program designed to provide short-term, state-of-the-art training to first and second-echelon Brazilian economic leaders. The four priority areas of the program are: (1) promotion of competition (demonopolization, antitrust, regulatory reform); (2) fiscal reform (tax administration, expenditure efficiencies, budgetary reforms); (3) privatization (especially of services); Regional economic integration, external trade liberalization, and income distribution.

Child Survival: USAID funds a three-year program to support organizations assisting at-risk youth in the three largest northeast cities in Brazil - Recife, Salvador and Fortaleza. The project targets youth (in about the 10-18 age range) who are at risk of becoming involved in drug use, prostitution, delinquency or living on the streets. The project is comprised of the following three components: (1) protection of children's rights and improvement of juvenile justice; (2) preventive youth development projects in low-income urban areas; and (3) support for young women at risk of sexual abuse or exploitation.

**Other Donor Resource Flows.**

In FY 1995, the United States is the fifth largest provider of development assistance after the World Bank, the InterAmerican Development Bank, the United Nations agencies, Japan, and Germany. The United States provides about a third of the amount provided by Germany.

**BRAZIL  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Increase Access to Contraceptive Methods		7,238,000			7,238,000
2. Environmentally and socioeconomically sustainable alternatives to deforestation and renewable energy practices adopted beyond the target areas			5,403,000		5,403,000
3. Reduced rates of sexually-transmitted HIV in target populations in two geographic regions of Brazil	3,209,000				3,209,000
Cross-cutting Issues:					
Child Survival					
Democracy and Governance				518,000	518,000
Economic Policy	559,000				559,000
Total	3,768,000	7,238,000	5,403,000	518,000	16,927,000

USAID Mission Director: Edward L. Kadunc

## COLOMBIA

**FY 1996 Development Assistance Fund Request: .....\$ 2,808,000**

Colombia, one of the oldest democracies in Latin America with 32.8 million people, has a strong and growing economy. However, both the democratic system and, indeed, the economy itself, have been challenged over the last decade by burgeoning problems in narcotrafficking and attendant corruption, and to a lesser extent, by population growth. The former problem in particular has posed an increasingly serious threat because of significant levels of narcotics exports to the United States. U.S. assistance to Colombia supports U.S. interest by promoting strengthened legal and judicial systems to deal with the narcotraffickers and by helping to stabilize population growth rates.

### **The Development Challenge.**

Real gross domestic product (GDP) grew by 5% in 1994, compared with 5.5% in 1993 and 3.5% in 1992, despite narcotrafficking, guerrilla violence, electricity rationing, tight monetary policies, and low international prices for coffee. Analysts estimate the costs of anti-guerrilla efforts and repairs to the country's infrastructure are equal to a reduction of 0.6% in GDP growth in 1992, or roughly \$260 million. Projections for GDP growth in 1995 are between 5% and 6%.

While the population growth rate of 1.8% is very good by Latin American standards, population growth still continues to slow improvements in overall standards of living and is a major causal factor to a high level of poverty (almost 12 million Colombians are classified as living in extreme poverty).

At the same time, significant weaknesses in the Colombian criminal justice system continue to hamper the Government of Colombia's (GOC) ability to address effectively the narcotrafficking and corruption that weaken the social and democratic fabric of the country. Those problems have resulted in the death of thousands of Colombians - judges, prosecutors, policemen, and ordinary citizens - who have struggled for a cleaner and more democratic society, and place in danger those who have come behind them.

### **Strategic Objective (SO).**

The current USAID program has a single basic strategic objective: improvement of the country's criminal justice system. This objective is consistent with U.S. Government objectives as set forth in the Presidential Decision Directive (PDD-14) on International Narcotics. The USAID Mission's strategic objective also is directly related to the furtherance of the Agency's goal of building democracy. Improvement of the criminal justice system is being implemented through the USAID Mission's. USAID is active in promoting the Agency goal of stabilizing population growth.

**BUILDING DEMOCRACY (Existing program is fully funded and do not expect additional funding requirements in FY96).**

### **SO 1. Promoting respect for the rule of law by strengthening legal systems**

USAID's justice sector reform program assists the GOC in its long-term efforts to restructure key judicial sector entities, with special emphasis on the criminal justice system. This is being accomplished through training, technical assistance and a number of activities being carried out in selected geographical jurisdictions. A mid-term evaluation of the program was begun in December 1994.

Activities. Since the beginning of the reform program, USAID, in collaboration with participating units from the U.S. Department of Justice, has been instrumental in assisting Colombian efforts to develop a long-term plan for restructuring justice sector organizations, to improve the effectiveness of the judicial branch and prosecutorial functions, to improve public access to the judicial system, and to expand judicial protection capabilities. This is being accomplished through projects in selected judicial jurisdictions, courts and prosecutorial units. Initially, USAID assisted the government in carrying out operational aspects of constitutional reforms promulgated in 1991, particularly in the creation of functioning institutions established by the constitution such as the Public Defender's Office (PDO) and the Prosecutor General Office development of operational procedures such as the criminal procedures code and the case management system for superior tribunals; and provision of related training.

USAID also has been instrumental in assisting Colombia to meet broader justice sector reform needs through assistance on additional legislative reforms, to support the human rights and public defender programs, and to provide training to improve the effectiveness of the protective personnel, and through the provision of armored vehicles and equipment to improve security of judges and other senior judicial sector officials. USAID is assisted in these efforts by the U.S. Department of Justice programs which train police officers, judges and prosecutors.

Indicators. USAID indicators for measuring progress toward achieving the strategic objective are: (1): increase in percentage of court findings on serious crimes plus confirmations of the findings by a higher court, if appeals or reviews were made, resulting from the preliminary investigations of such crimes; (2): decrease in length of time for a case to be completed from the opening of the preliminary investigation to the court finding or to the finding's confirmation by a higher court, if appeals are made; and (3): increase in public perception of the efficacy of the criminal justice system, as developed in public opinion polls.

The first indicator is a composite of performance data derived from a three-stage system consisting of preliminary investigation, formal investigation, and trial. During the period June, 1993 - May, 1994, in the five regional prosecutorial units the percentage of cases moving from preliminary to formal investigation increased from 18.7% to 19.3%, and the number of formal investigations reaching trial increased from 9.7% to 19.7%. During the same period, in the 27 ordinary prosecutorial divisions the increases were 48.2% to 54.1%, and 31.6% to 32%, respectively. At present, only baseline data has been calculated for the courts. From June, 1993 - May, 1994, in the five regional courts, findings were returned on 44.6% of the cases presented. Progress against this baseline will be monitored and reported beginning in 1995.

Baseline data for the second indicator has been calculated only for the five regional jurisdictions. The average number of days for a case to move from the preliminary investigation stage to a finding is 574. Baseline data for the ordinary prosecutorial units and courts will be established in 1995. For the third performance indicator, an opinion poll designed to gauge public perceptions of the efficiency of the judicial system, is underway. Final results are expected to be available in April 1995.

Feasibility and Cost-effectiveness. Since March 1992, when the program effectively started, intensive training, technical assistance, and state-of-the-art equipment have been provided to the main justice sector institutions in the country, particularly the investigative agencies, the Prosecutor General Office, and the Office of Special Investigations of the Attorney General Office, in order to increase the number of preliminary investigations which reach the formal investigation stage and that then can be presented to the courts. Additionally, the program has provided funding to build a statistical information system for the courts.

The establishment of the Prosecutor General Office and the strengthening of the investigative agencies, including the Office of Special Investigations, supported with focused and specific sub-projects of the reform program have generated a positive impact in the criminal system including:

(1) During their first two years of operation, prosecutorial units, both at the preliminary and formal stage, have reported more cases addressed and decisions taken, which in turn, have contributed to a substantial reduction in the number of pending cases, from 90.3% in May 1993 to 75.9% in May 1994.

(2) Considering the baseline data sets calculated before the establishment of the Prosecutor General Office in July 1992, and subsequent measures for the first two complete years of operation of the ordinary prosecutorial units of the office, major progress can be established in those units both at the preliminary and formal stages: the number of pending cases has decreased in the preliminary investigation from 46.9% in June 1992, to 36.3% by the end May 1994, and in the formal investigation stage from 67.9% in June 1992 to 56.5% by the end of May 1994.

(3) At the court level, only baseline data sets have been calculated. Therefore, at this point progress cannot be assessed accurately.

An opinion poll designed to gauge public perceptions of the efficiency of the judicial system is expected to get underway shortly. For the second indicator presented above, baseline data have been calculated for the first time ever in the judicial sector.

Progress in 1993-1994. Progress toward achieving USAID's strategic objective has been excellent. following are the most important accomplishments related directly to the courts and the Prosecutor General Office:

- A major program for administrative and organizational improvement of 39 ordinary prosecutorial units. (This activity includes facility repair and upgrading, and design and implementation of improved administrative systems: as of September 30, 1994, 22 units had been repaired and upgraded, and administrative systems of 2 units had been improved.)
- Development of the project to bid, contract, design, and install a complete information and data management system for the 328 District Prosecutors of the five largest sections of the Prosecutor General Office. (During August and September 1994, the USAID program supported two major discussion workshops which were attended by 97 systems personnel of the Prosecutor General Office to make the most reliable and comprehensive design of the system.)
- Physical security upgrades at the Prosecutor General's Office and the Supreme Court of Justice.
- Development of a project to reduce sharply the backlog of cases in the five regional prosecutorial units and in five selected ordinary prosecutorial units.
- Installation of a complete information and data management system for the Attorney General Office and strengthening of the division of the Attorney General's Office which investigates human rights abuses and corruption cases through intensive training and design of an management information system.
- Design of a master plan to support pilot units of the Public Defender's Office to be established in the country's six major cities.
- Establishment of 13 new alternative dispute (mediation) centers, development of basic documentation, and training of the centers' personnel.
- Development of an integrated, sectoral planning system to strengthen the planning process between justice sector institutions.
- A total of 632 judges, 2,116 prosecutors, 1,420 investigators, and 1,083 other justice sector officers have received training from the program. Of this number, 3,427 have been trained by the Foundation for Higher Education, the lead USAID counterpart entity, 1,683 by the Department of Justice, and 160 with USAID direct funding.

Constraints. The year 1994 was an election year in Colombia. Loss of momentum during the election campaign and significant turnover in personnel during the transition period to the new administration contributed to slowdown of the program during the year.

Donor Coordination. USAID communicates regularly with other donors in the justice sector, including the United Nations Development Program, Great Britain and Germany. Plans are being made to initiate a donor coordination group for the sector in 1995.

STABILIZING POPULATION GROWTH (\$2,808,000).

USAID is in the process of phasing out centrally funded support to family planning in Colombia in order to concentrate program focus on justice sector reform activities. Support to family planning in Colombia will terminate in 1996. The funds requested during the final year of the transition program will be used to finance clinical equipment for the PROFAMILIA health service diversification plan, service delivery, and contraceptives. An estimated 540,000 couple years of protection will be provided. The USAID population program in Colombia has been instrumental in development of a private, national service delivery system by PROFAMILIA, which is now approaching financial self-sufficiency. The planned phase-out of USAID assistance has been structured so as to minimize disruption of this highly effective family planning and reproductive health services program, which continues to serve as a model for the development of such services in other countries.

FY 1996 PROGRAM SUMMARY

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environmt.	Building Democracy	Providing Humanitarn. Assistance.	Total
<b>USAID Strategic Objectives</b>						
1. Promoting Respect for the Rule of Law by Strengthening Legal Systems.						0
Cross-Cutting Issues: Reduce Fertility		2,808,000				2,808,000
<b>Total</b>	0	2,808,000	0	0	0	2,808,000

USAID Mission Director: Lawrence J. Klassen

## DOMINICAN REPUBLIC

FY 1996 Development Assistance Fund Request:.....\$16,185,000  
FY 1996 P.L. 480 Title II Request:.....\$3,452,000

As an historically friendly neighbor, the Dominican Republic's support has been, and will continue to be, key in addressing our national interests with respect to enhanced market access for U.S. exporters, combatting the smuggling of aliens and other contraband, controlling the spread of AIDS, combatting drug trafficking and money laundering, supporting the new Haitian government, fending off blunt pressure from other Caribbean states for closer regional ties with Cuba, and promoting stability in the region. The proximity of the Dominican Republic means that its problems often have a direct spillover effect on the United States. A variety of factors place these U.S. interests at considerable risk and could undermine the Government of the Dominican Republic's (GODR) traditionally supportive stance toward U.S. policy objectives in the region. Such factors include the country's high incidence of poverty, lack of economic opportunity, social injustice, and lack of respect for the rule of law. Weak democratic institutions, a series of elections marred by controversy and national crisis, a trade regime heavily influenced by protectionist interest groups, and corruption weaken development prospects. These factors have resulted in the Dominican Republic having the world's third highest number of immigrant visas to the United States, and roughly one out of seven Dominicans are now thought to live, legally or illegally, in the United States. The difficult tax and regulatory climate adversely affects U.S. exporters and businesses. The Dominican Republic has become a major drug transshipment point between Latin America and the United States and Europe, and combatting the mushrooming AIDS epidemic also has become a major issue. The high level of Dominican immigration to the United States makes the containment of this epidemic an important U.S. health concern. We firmly believe that promoting democracy and sustainable economic development are essential to addressing these conditions and protecting core U.S. interests in the Dominican Republic.

The Dominican Republic occupies the eastern two-thirds of the island of Hispaniola in the Greater Antilles, sharing the island with Haiti. It occupies an area of about 48,700 square kilometers and has a population of 7.1 million people, growing at 2.1% per annum. Although the country has made economic progress in the last four years, following an initial round of economic reforms, it still remains the second poorest country in the Caribbean and the eighth poorest in the Western Hemisphere. Per capita gross domestic product (GDP) is only about \$1,520, a figure which masks pronounced inequity in income distribution: the poorest 50% of the population receives less than 20% of total income, while the richest 10% receives about 42%. Adequate living standards for the lower spectrum of the population are not in sight. According to a conservative World Bank definition of poverty, 20% of the population lives below the poverty line, subsisting on less than \$26 per person per month. Given the country's relatively generous resource base, and industrious, highly motivated population, this need not be so.

### The Development Challenge.

The major constraint facing the country is a vicious cycle of bad governance, flawed policy, poverty and social injustice. Government institutions are overly centralized and the presidency still wields near autocratic powers. Flawed macroeconomic policies have added disproportionately to the burden of the poor and exacerbate social problems. The level of social spending is one of the lowest in the Hemisphere, and expectations for improved social justice will not be realized unless the political structure becomes more responsive, less autocratic, and less corrupt.

The prospects for breaking this vicious cycle will depend in large part on the political will of the President's two-year transitional government to comply with the Pact for Democracy, signed in August 1994 by the major parties and all major sectors of society as a solution to the post-electoral crisis. Meaningful political reforms will be necessary to prevent the recurrence of the serious irregularities that



have beset previous elections in the Dominican Republic and to ensure that the will of the people will be honored.

The USAID program supports such reforms as well as a range of activities aimed at enhancing economic opportunities for the poor, promoting family planning, and improving health status. Throughout, USAID promotes broad-based participation of the population through the intermediary of local private voluntary and non-governmental organizations (PVOs/NGOs), which serve as surrogates for participatory democratic institutions. PVOs/NGOs implement fully 85% of USAID assistance to the Dominican Republic.

**Strategic Objectives (SOs):**

**ENCOURAGING ECONOMIC GROWTH (\$8,078,000)**

**SO 1. Sustained, environmentally-sound economic growth with equity (\$5,200,000 of which \$3,546,000 is for Economic Growth and \$1,654,000 is for Protecting the Environment).**

The Dominican Republic is the U.S.'s seventh most important trading nation in the Western Hemisphere, and the fourth most important supplier of finished clothing in the U.S. market. Despite such economic success, the country also boasts the world's third highest number of immigrant visas for the United States. Extremes of wealth, poverty and unusually high desire to emigrate make USAID's objective of achieving economic growth with equity more challenging than in many other Latin American nations. Recent Dominican history demonstrates strong linkages between macroeconomic performance and living standards of the poor. The micro-enterprise sector accounts for 23% of GDP and provides employment for about one quarter of the economically active population in the Dominican Republic. The micro-enterprise sector is often the recourse of the poor and of women who have limited opportunities and face discrimination in the formal sector. Low levels of public spending on education over the long term threaten the ability of lower income groups to be successful even in this sector. The micro-enterprise sector provides opportunity for the most disadvantaged in a macro-economy still characterized by sizeable unemployment and underemployment.

USAID emphasizes the creation of economic opportunities largely through assistance to micro-enterprises and primary education, supplemented by carefully targeted policy reforms in the energy and trade sectors.

Activities. The USAID PVO co-financing and the micro and small business development (FondoMicro) activities finance a number of PVOs which assist or provide credit to microenterprises, promoting income generation for economically disadvantaged people. The private initiative in primary education project funds a local PVO, Action for Basic Education, to continue improving the quality of primary education. The economic policy and practice project activities promote the implementation of economic reforms critical to improving economic opportunity for lower income groups, also working through NGOs. Major subgrants under this project were to support a congressional economic advisory program to analyze the electrical privatization bill, the GODR budget law and procedures and the Foreign Investment Law. This project also helps finance studies on possible regional integration and seminars for key policy makers on export policy reform. The electrical energy sector restructuring activities will help improve the legal and regulatory framework, attract private sector participation in the energy sector, and ultimately provide more equitable and less costly access to energy.

Indicators. This strategic objective is currently being refocused in the context of USAID's re-engineering efforts. The principal indicators aim to: (1) Increase income-generating opportunities; and (2) improve the quality of primary education, both targeting lower-income groups.

Progress in 1993-1994. USAID assistance has provided credit to 11,122 microenterprises which directly created or strengthened 16,148 jobs, including 8,835 in the last year alone. Approximately

half of all credit recipients are women. Technical assistance is helping NGOs to qualify for credit and is strengthening the management of NGOs so that credit programs can be expanded. In education, EDUCA has played a catalytic role in developing and building a national consensus for a 10 year plan to improve primary education and standardized tests to be adopted by the Government for the fourth and eighth grades. A recent evaluation recommended this project as a model.

Feasibility and Cost-effectiveness. Recent Dominican experience demonstrates strong linkages between macroeconomic performance and living standards of the poor. Thus, efforts to provide targeted opportunities to improve these standards are appropriate. Furthermore, despite its economic success as the seventh most important trading nation in the Western Hemisphere and the fourth most important supplier of finished clothing to the U.S. market, the Dominican Republic also boasts the world's third highest number of immigrant visas for the United States. Constant attention to policies and programs that will generate local employment is in order. The micro-enterprise sector accounts for 23% of GDP and provides employment for about one quarter of the economically active population in the Dominican Republic. Over 80,000 new jobs were generated during 1992 alone, a growth rate of 10.8%. This sector provides opportunity for the most disadvantaged, including women, in an economy still characterized by sizeable unemployment and underemployment. Finally, encouraging private sector advocacy for primary education helps to counteract low levels of public spending in this area.

Donor Coordination. USAID has sought, and achieved, close coordination with the World Bank, Inter-American Development Bank (IDB), and other donors. This coordination has allowed us to leverage each other's programs to exert maximum support for good governance and sound project administration especially in the electrical energy and the educational sectors. For example, USAID's \$5.5 million support to EDUCA has contributed to the development of a 10-year plan, which leverages \$50 million in IDB and World Bank financing to restructure the primary education sector.

Constraints. The economy, as a result of the long political campaign for the May 1994 elections and the post-electoral crisis, is facing major problems. The Government needs to implement more vigorously its economic reform agenda and also should undertake additional reforms to avoid an economic crisis similar to that of 1990, when inflation exceeded 100%. Current low foreign exchange reserves and the increased fiscal deficit are already boosting inflation and could force a currency devaluation. The productive, commercial and microenterprise sectors, as a result, would grow at a much slower pace than in recent years. Budget austerity would aggravate already decreased GODR spending for social services. However, it will be extremely difficult for the Government to implement the needed policies as the May 1996 election draws closer.

As noted, the above objective not only addresses economic growth, but also includes activities aimed at protecting the environment. USAID, under the PVO Co-Financing project, plans to carry out various activities aimed at improving water and sanitation conditions as well as projects in soil conservation. The Electrical Energy Restructuring project will incorporate a major initiative in environmental regulation. The Mission also supports central and regional projects such as the Environment and Natural Resources Policy and Training and Parks in Peril projects.

#### **STABILIZING POPULATION GROWTH (\$3,862,000).**

**SO 2. Stabilized population growth and improved health status (\$8,394,000 of which \$4,532,000 is for Economic Growth and \$3,862,000 is for Stabilizing Population Growth).**

The public health sector in the Dominican Republic has deteriorated in recent years due to declining real government investment and inequitable distribution of health information and services. The poor have therefore looked to private sector and non-profit organizations for most of their health services.

USAID's strategy for the population and health sector focuses on family planning and maternal-child

health, with special emphasis on human immunodeficiency virus and acquired immunodeficiency syndrome (HIV/AIDS) prevention. Our integrated approach in this sector is based on the premise that rapid population growth and poor health are closely linked with low status and limited rights of women, especially in the lower economic strata. High rates of unintended pregnancy, especially among adolescents, and lack of accessible primary health and family planning services, compound the problems of lower income groups, since scarce resources are devoted to additional children or to curing family members from preventable diseases. Unintended pregnancy, childbearing and childcare also impact negatively on household income. Many households are headed by females, and the unemployment rate for females is about 40%. Particular emphasis is placed on immunization, child spacing, breast feeding, diarrheal prevention and control, as well as information on family planning, AIDS and other sexually transmitted diseases.

Activities Through family planning and health activities, USAID provides support to accelerate the process of fertility decline in the Dominican Republic, as well as to improve the health of women and young children and to enhance public health efforts to prevent the spread of HIV/AIDS and sexually transmitted diseases.

The Dominican Republic is a USAID HIV/AIDS priority country. USAID interventions in this area provides support to: improve the availability and use of AIDS information; educate and mobilize the private sector through workplace programs; strengthen and expand the participation of both public and private sector organizations in HIV/AIDS prevention; and develop the infrastructure for greatly expanded diagnosis and treatment. The PVO co-financing project finances six subgrants to PVOs to improve access to selected primary health services in the areas of child survival, water and sanitation, immunization and breastfeeding.

The P.L. 480 Title II food assistance program is fully integrated into USAID's development portfolio. It is currently concentrated in two major areas: (a) the maternal and child health program, aimed at improving the health of young children and lactating mothers in selected rural communities; and (b) the environmental sanitation food-for-work program, which assists low-income families to implement collective, solutions to environmental health and sanitation problems by encouraging community residents to work together through community organizations to achieve hook-ups to municipal water and sanitation services.

Indicators The indicators which measure the progress in achieving this objectives are: (1) increased contraceptive prevalence; (2) improved knowledge of AIDS-related behavior.

Progress in 1993-1994. Broad-based participation, innovative NGO service delivery methods, and expanded social marketing have made a positive impact on the Dominican Republic's health status. Infant mortality has been cut almost in half over the past seven years, with the current rate at 43 per thousand. A recent demographic and health survey noted significant progress in decreasing fertility and increasing contraceptive prevalence. Contraceptive prevalence rose from 33% to 37% of all women between 1986 and 1991, as the private sector became the major supplier of contraceptive services (64.7%). Over 700,000 couple-years of contraceptive protection has been provided through USAID assisted programs. Much more could be achieved if the Government were committed to providing adequate support in this critical social sector. USAID has initiated a dialogue with the Government that will address sector policy and financing issues in a comprehensive manner.

Feasibility and Cost-effectiveness. USAID's integrated approach in this sector is based on the premise that rapid population growth and poor health are closely linked with low status and limited rights of women, especially in the lower economic strata. High rates of unintended pregnancy, especially among adolescents, and lack of accessible primary health and family planning services, compound the problems of lower income groups, since scarce resources are devoted to additional children or to curing family members from preventable diseases. Unintended pregnancy, childbearing and childcare also impact negatively on household income. Many households are headed by females, and the

unemployment rate for females is about 40%. USAID's program places particular emphasis on immunization, child spacing, breast feeding, diarrheal prevention and control, as well as information on family planning, AIDS and other sexually transmitted diseases.

The AIDS epidemic poses a significant threat to the country's economic and social welfare. HIV prevalence is about 1% of the general population and is growing rapidly. Although HIV is found throughout the social spectrum in the Dominican Republic, the poor and socially disadvantaged are being infected at very high rates. Approximately 250,000 Dominicans (3.5% of the population) will be HIV positive by the end of 1995, according to epidemiological projections, justifying USAID's overarching priority to build national institutional and technical capacity to address AIDS issues, including sustained support to the private sector.

Donor Coordination. USAID has initiated meetings with other donors with a view to undertaking discussions with the GODR Secretariat of Health aimed at coordinating all assistance to health and family planning activities. The World Health Organization, Pan-American Health Organization and United Nations Development Program are active in the health sector and close coordination exists between these agencies and USAID in development of a health matrix for the Dominican Republic.

Constraints. Economic stabilization measures have placed a severe burden on the social sectors. The GODR spends only 1.7% of GNP (or 14% of its budget) on health. There are an estimated 70,000 illegal abortions per year in the Dominican Republic, testifying to the inadequacy of family planning services. The situation is no better in other public health areas.

#### **PROVIDING HUMANITARIAN ASSISTANCE (PL 480 Title II, \$3,452,000).**

As noted, the preceding objective addresses not only population growth but also humanitarian needs through the P.L. 480 Title II food programs focused on maternal and child health, and health and sanitation problems of low-income families.

#### **BUILDING DEMOCRACY (\$2,591,000).**

##### **SO 3. Increased participation in the democratic process (\$2,591,000)**

The Dominican Republic is living with the legacy from Trujillo. The country is still plagued by an authoritarian political culture, underdevelopment and poverty. Compounding this, the Government has not responded sufficiently to important and diverse social demands. The development and strengthening of a participatory democratic political system is one of the highest priorities for the Dominican Republic. Sustainable economic growth with equity cannot be achieved without significant strengthening and broadening of democracy at all levels of society. Renewal of the political leadership, revamping of the political party system, and profound institutional reform are preconditions to the modernization of the State. Today, there is widespread awareness that such reforms must be put into effect before the Dominican Republic can truly be a democratic society.

Activities. Through democratic initiative activities, USAID provides support to strengthen and expand citizen participation in the political process as well as their involvement in the promotion of democratic reforms. The U.S. Government has also committed itself to assisting the GODR to prepare for the May 1996 elections, if called upon, providing assistance particularly in those areas of election administration weakness identified during the May 1994 elections. In addition, support is critically needed to strengthen Dominican civil society and to provide rapid response support for general civic education, empowering disadvantaged groups and strengthening hemispheric ties to Dominican democratic institutions. USAID is developing plans to provide such support.

Indicators. Indicators to measure progress in achieving this objective are the following: (1) increased citizen awareness of the benefits of participatory democracy; and (2) increased public confidence in the judicial system.

Progress in 1993-1994. Through various NGO sub-grants, an increasing number of citizens are participating in the political system and becoming informed of their role in the democratic participatory process. USAID assistance to the difficult May 16, 1994 elections mitigated opportunities for irregularities and permitted the United States to speak authoritatively on the election's questionable legitimacy.

Feasibility and Cost-effectiveness. USAID efforts in helping to build democracy have focused on increasing citizen awareness and participation at all levels, improving governmental efficiency and impartiality, and improving the electoral and judicial systems. USAID resources are channeled through local NGOs, public interest groups, foundations, community organizations and other intermediary institutions which are committed to strengthening the democratic system and helping the poor.

Other Donors. This is a new area for donor support. To date only the Organization of American States has been active in supporting general elections and coordinating democracy-related activities with USAID.

Constraints. The common perception of the Government as provider of all is slowly waning. This provides encouragement to those promoting true democratic participation. If events occur which strongly discourage or stifle this enthusiasm, the pockets of self-determination which exist throughout the country could die out.

#### **Other Donor Resource Flows.**

The United States is presently providing about 10% of all donor assistance to the Dominican Republic. Major bilateral donors are the United States, Italy, Japan, Germany and Spain. Major multilateral assistance is being provided by the World Bank, Inter-American Development Bank (IDB), the European Community, and the International Monetary Fund. USAID has mutually reinforcing programs with the IDB, the World Health Organization, and the World Bank.

DOMINICAN REPUBLIC  
FY 1996 PROGRAM SUMMARY

	Encouraging economic growth	Stabilizing Population growth	Protecting the environment	Building democracy	Providing Humanitarian Assistance	Total
SO 1. Sustained environmentally-sound economic growth with equity	3,548,000		1,654,000			5,200,000
SO 2. Stabilized Population growth and improved health status	4,532,000	3,862,000				8,394,000
SO 3. Increased participation in the democratic process				2,591,000		2,591,000
P.L. 480 Title II					3,452,000	3,452,000
<b>Total</b>	<b>8,078,000</b>	<b>3,862,000</b>	<b>1,654,000</b>	<b>2,591,000</b>	<b>3,452,000</b>	<b>19,637,000</b>

USAID Mission Director: Marilyn A. Zak

## ECUADOR

FY 1996 Development Assistance Funds Request: ..... \$18,250,000

Ecuador remains one of the least developed countries in South America. Despite recent improvements in economic growth, the country has experienced a decade-long recession since the early 1980s. Due to inadequate economic and social policies, per capita gross national product (GNP) growth has been negative, real wages have decreased by over 60%, and income distribution is one of the worst in Latin America. These problems are compounded by a high population growth rate of 2.3%, poor health conditions, and large-scale rural and urban poverty. Democratic and judicial institutions remain fragile and ineffective in dealing with some of the country's most critical problems. There is lack of a coherent strategy for dealing with growing environmental degradation, which has attracted international attention. On the positive side, Ecuador has implemented major stabilization and structural reforms, reached agreement on an International Monetary Fund (IMF) standby agreement, obtained large Inter-American Development Bank (IDB) and World Bank policy-based sector loans, and completed historic debt renegotiations. These reforms are gradually improving the investment climate, exports and overall economic growth, as well as trade opportunities with the United States. The United States is Ecuador's major trading partner, with about 46% (or \$1.2 billion) of total Ecuadorian imports coming from the United States in 1993. U.S. assistance to Ecuador strongly supports economic, social and environmental reforms that will further expand U.S. markets and ultimately facilitate Ecuador's entry into free trade agreements. U.S. assistance also promotes our key objective of strengthening Ecuadorian democracy by promoting judicial reforms, thereby improving the administration of justice and helping modernize and reform the social sectors. Modest U.S. assistance has played a key catalytic role in enabling other donors to implement their programs in economic, social and environmental reforms.

### **The Development Challenge.**

The challenge for Ecuador in this decade is to continue the momentum of reform begun in 1992. Much has been accomplished -- but much is left to be done. Slowly, and at times hesitantly, a fundamental shift in outlook is taking place in Ecuadorian society. A study in contrast, this country is blessed with abundant natural resources, a vigorous private sector, and democratically elected leadership. Yet, the political process is highly fragmented, some elites and middle-class groups continue to capture most of the benefits of development, and entrenched interests of every type combine to resist change. The net result is a country poised to break the stranglehold of the past and commit itself to a course of modernization of the economy, democratic institutions and processes, and the allocation and delivery of social benefits, all of which will lead to more equitable growth for the future. U.S. assistance has a key role in helping Ecuador to break that stranglehold and to move forward in the transition towards a more efficient and equitable society.

### **Strategic Objectives (SOs).**

USAID is pursuing the four agency strategic goals in Ecuador, as outlined below. The program includes activities in policy dialogue and training which support achievement of all USAID strategic objectives. USAID's program in Ecuador consists of an integrated approach to implementing the agency strategic goals. Accordingly, activities which encourage broad-based economic growth also include major emphasis on social and democratic policy reforms, and projects for protecting human health and the environment include efforts to provide economic opportunities to the poor, especially through strengthening non-government organizations (NGOs).

## ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$6,472,000).

### SO 1. Increase sustainable economic growth for a broad base of the population (\$3,009,000).

The prevalence of poverty in the country reveals that between 50% and 60% of the population falls under the poverty line. One USAID-funded study estimated that 20% to 25% of Ecuadorians live in "critical poverty" without enough income to purchase even a minimally nutritious diet, and that another 25% to 35% are in relative poverty with income for basic food, but not enough to meet other basic necessities. USAID efforts are directed toward promoting policies which lead to poverty alleviation and improving opportunities for low-income households. Moreover, the delivery of the assistance proposed by USAID is such that beneficiaries will directly participate in the process, i.e., representatives of the poor will participate in the policy formulation and evaluation process, and greater use is being made of NGOs to advocate policy change and to deliver basic services.

Activities. USAID's policy dialogue and project-funded technical assistance is helping Ecuador deepen economic reforms, such as trade liberalization, privatization, and legal and regulatory reforms that strengthen micro and small enterprises. Most importantly, in order to promote social policy reform, USAID is encouraging the enhancement of Ecuador's policy analysis capability by supporting seminars, workshops, and training--in a comprehensive process leading to implementation of reforms. USAID also is providing assistance to Ecuador in housing and infrastructure finance and policy reform, strengthening local governments, privatizing municipal services, and improving the urban environment. USAID is helping the Government of Education (GOE) organize and finance its emergency social investment fund (FISE) to cushion the immediate impact of economic reforms on the poorest and vulnerable groups. An innovative P.L. 480 Title II program is helping the fund expand NGO programs in social investment activities. A very important microenterprise development activity to pioneer large-scale leveraging of financial resources for microenterprises will start in late 1995.

Indicators. The following indicators measure the progression achieving this objective: (1) enable the GOE to formulate and implement a more coherent social policy agenda and poverty alleviation strategy; (2) increase the net income of small enterprises (with emphasis on microenterprises) by 7% annually; and (3) increase the percentage of small farmers with increasing net household incomes from 50% in 1994 to 75% in 1997.

Feasibility and Cost-effectiveness. The USAID's program under this objective has emphasized policy reform, starting with structural policies to improve the economy as a whole and, beginning in 1993-94, focusing on policies which more directly alleviate poverty. With a tradition of working with NGOs and quick access to highly qualified technical assistance, USAID has been able to effect policy changes and mobilize other donor resources. Thus, the program has been cost-effective in the sense that relatively small USAID resources have facilitated several hundred million dollars of World Bank and IDB resources for economic growth and structural reform.

Progress 1993-1994. Policy reform activities supported by USAID have contributed to successfully securing an IMF standby agreement, passage of privatization and capital markets laws, savings mobilization, improvements in housing finance, tenure security, price liberation, and elimination of non-tariff barriers. USAID has had impact upon increasing knowledge and awareness of social, economic and trade issues. For example, influential groups of Ecuadorian academic and business leaders have enthusiastically taken up the cause of education and health reform. In other programs, USAID achieved considerable progress in trade and employment generation (\$95 million in sales and 32,000 jobs in the non-traditional export sector alone). In agriculture, USAID projects helped increase gross income per hectare in specific agricultural commodities. For example, policy improvements are credited with augmenting the value of rice production by \$100 million in 1993 and 1994, thereby increasing the real incomes of 150,000 small holders who depend on rice production as their major source of income.



**Donor Coordination.** USAID has been successful in mobilizing substantial other donor resources in several policy areas under this objective. For example, in capital markets development, USAID technical assistance in drafting reform legislation and establishing a regulatory function led to expanded assistance under the IDB financial sector loan, which totals \$100 million. In agriculture, USAID policy analysis activities will be continued under a \$25 million World Bank agriculture-sector modernization project, and the USAID project will be successfully completed.

**Constraints.** The major constraint to achieving deeper economic and social reform and to securing major resources from other donors is the fragmented political process not conducive to timely policy reform and the upcoming national election campaign. USAID policy dialogue efforts will help address the lack of consensus on policy changes.

**SO 2: Reduce levels of mortality and fertility to levels which are commensurate with sustainable development \$8,159,000 of which \$3,463,000 is for Economic Growth).**

This Strategic Objective supports both Agency objectives of encouraging economic growth and stabilizing population growth. Health and Family Planning are combined under one USAID strategic objective, since the Ministry of Health and NGOs offer family planning and health services together.

A national survey indicated that the prevalence of chronic malnutrition among children under five is 55%. In most of rural Ecuador, diarrheal disease and acute respiratory infections are still the number one cause of mortality for children under five. Large proportions of women still do not have access to adequate prenatal care. Provision of water and sanitation is limited, especially in rural areas. Gaps in water and sanitation services tend to mirror the poverty of the country, with two-thirds of those not covered by water or sanitation services belonging to the lowest-income groups.

**Activities.** USAID health activities support major policy reform. The child survival activities are focused on improving the administrative and managerial efficiencies of the Ministry of Health, to strengthen its normative and policy-setting functions. Considerable training has taken place to improve access to health services. At the present time, USAID is redirecting its efforts towards improving the policy climate for health reform and increasing the provision of primary health care services by NGOs. USAID also is leveraging funds from other donors, such as the Pan American Health Organization, for the construction of potable water and sanitation systems, thereby increasing the access of population in marginal areas to water and sanitation.

**Indicators.** The indicator to measure the achievement of this objective is the reduction in the infant mortality rate (number of deaths in children under age 1, per 1,000 live births) from 53 to 32.2 in 1997.

**Feasibility and Cost-effectiveness.** Assistance provided in health sector reform is leveraging the resources of other donors. USAID, for example, has successfully influenced the direction of the World Bank's \$70 million health sector loan project. As with other strategic objectives, USAID is serving a catalytic role in facilitating other donor support in policy reforms such as decentralization, targeting of benefits, and increasing private sector provision of services.

**Progress in 1993-1994.** Significant advances have been made in the areas of health care finance and institutional reform. This has already translated into a decline in the infant mortality rate to 40 per thousand live births. At the same time, USAID has provided the Ministry of Health with assistance in supervision and logistics to improve the quality of care in both family planning and primary health care services. USAID technical assistance to the largest of three targeted municipalities increased the coverage of potable water and sanitation services from 65% to 80%. In two out of three targeted municipalities, the local and regional water authorities have improved supervision procedures to ensure the quality of water has improved and the number of municipalities that are establishing a water-user fee has increased.

**Donor Coordination.** Policy activities in health contributed to improved implementation of the World Bank \$70 million health reform project.

**Constraints.** In overall health policy reform, the challenge is to actually implement ambitious reforms adopted on paper by the Ministry of Health. Donors will have to present a united front in advocating the reforms with both the public and private sectors. In relation to water and sanitation, urban coverage levels are actually decreasing, since urban growth has outstripped the ability of public investments to keep pace with the overwhelming increase in demand for services and infrastructure.

## **STABILIZING POPULATION GROWTH (\$4,696,000)**

**SO 2: Reduce levels of mortality and fertility to levels which are commensurate with sustainable development (\$8,159,000 of which \$4,696,000 is for population and \$3,463,000 is for economic growth).**

Ecuador is a country where population and health conditions seriously hinder sustainable development. One of the country's major challenges is to continue to reduce overall rates of population growth, fertility and mortality. Significant numbers of women do not have adequate information concerning contraceptive methods or currently use inefficient contraception methods.

**Activities.** The purpose of USAID's programs under this SO is to increase the use, effectiveness and sustainability of family planning services in Ecuador through the following activities: (1) strengthening family planning NGOs in order to improve their institutional sustainability over the long run; (2) improving policies in order to increase the levels of resource allocation and public sector political commitment to family planning; and (3) improving communications in order to expand service delivery of specific target sub-groups which have exhibited high levels of unmet demand or are at high health risk.

**Indicators:** The indicator to measure the achievement of this objective is a reduction in the total fertility rate (average number of children per woman in reproductive years) from 3.83 to 3.5 in 1997.

**Feasibility and Cost-effectiveness.** USAID family planning activities are currently assisting family planning NGOs to expand services to outlying rural communities and to increase their self-sustainability (currently 60% self-financed) by promoting cost-recovery and improving administrative efficiency.

**Progress in 1993-1994.** Two family planning NGOs continue to increase their coverage of family planning users. Together, they have increased the number of new family planning users by over 50,000 in the past year. These NGOs also are providing new, improved contraceptive methods which increase the range of choice for women. Additionally, the family planning NGOs have increased their level of cost-recovery to above 60%. Preliminary evidence from a recent national survey indicates that overall contraceptive prevalence increased from 53% in 1989 to 57% in 1994. These achievements have contributed to an impressive, overall reduction in the population growth rate of around 3.5% in the late 1970s to 2.3% today.

**Donor Coordination.** USAID is the leading donor in the NGO-based family planning activities described above, and NGO efforts in self-sustainability have not required other donor assistance. However, USAID and the United Nations Family Planning Agency (UNFPA) have jointly financed demographic surveys, related seminars, and dissemination of information.

**Constraints.** While significant success has been achieved in reducing overall rates of population growth, fertility and mortality, important gaps remain, particularly in urban marginal and rural areas, and many women still lack adequate information regarding contraceptive methods.

As described in the preceding section, health activities under this Strategic Objective contribute to

Economic Growth.

**BUILDING DEMOCRACY (\$2,451,000).**

**SO 3. Improved responsiveness of selected democratic institutions with greater citizen participation. (\$2,451,000)**

USAID has selected the justice sector as one in which democratic institutions can be strengthened and where limited resources can make a difference and lead to major reform and increased other donor assistance. Ecuador has a highly fragmented justice sector, with judicial responsibilities divided up among many entities. This along with inadequate human resources, weak institutions and other problems has led to a seriously inefficient and delayed justice administration. By working through private and public sector working groups and a very effective NGO, USAID has had a major impact on the passage of laws and in extending reforms beyond the justice sector to progress in the area of anti-corruption.

Activities. USAID's assistance is helping Ecuador accelerate its judicial reforms, draft new legal codes, and begin a process of improving the administration of justice. USAID is helping to promote democratic leadership through training programs.

Indicators. The indicator which measure progress in achieving this objective are: (1) an increase in the number of reform proposals enacted and being implemented; and (2) an increased level of public confidence in the judicial system over time.

Feasibility and Cost-effectiveness. USAID's approach to justice sector reform, i.e., support to influential working groups, strengthening of a private sector NGO, and technical assistance in drafting important laws, has led to historic reform and the commencement of other donor support for justice sector reform including the United Nations Development Program (UNDP), IDB and World Bank. USAID's modest investment in judicial sector reform is helping Ecuador mobilize well over \$10 million of other donor funding, and is providing the strategic framework for judicial reform activities in Ecuador.

Progress in 1993-1994. Most importantly, public and private justice sector working groups (JSWGs), which provide a forum for policy dialogue, have been established with USAID financing. Two laws, the Cassation law and the Organic Law of the National Judicial Council which are necessary to implement the 1992 constitutional reforms making the Supreme Court independent, were passed by the congress and have resulted in the implementation of administrative reforms. The JSWGs are preparing a comprehensive justice sector action plan which will further accelerate Ecuador's strategy for justice sector reform and will be presented to donors. The USAID Ecuadorian private sector counterpart, the Latin American Development Corporation developed a data base to track the plight of approximately 6,000 untried and unsentenced prisoners in Ecuadorian jails, thus helping to address a major judicial reform and human rights issue. The Latin American Development Corporation also has initiated the sector's first anti-corruption program.

Donor Coordination. The President has designated the JSWGs as being responsible for formulating Ecuador's strategic framework for judicial reform and for coordinating all donor support. Both the World Bank and IDB are currently designing judicial reform programs to be closely coordinated with the USAID-assisted JSWGs.

Constraints. The major constraint is the continuing fragmentation of the sector and the slowness of the GOE in deepening the process of justice sector reform. To some degree this is compensated for by the JSWG and a very dynamic NGO, but certain responsibilities are necessarily in the public sector, and delays in initiating the reform process have resulted.

## **PROTECTING THE ENVIRONMENT (\$4,631,000).**

**SO 4: Promote the sustainable use of natural resources, the conservation of biological biodiversity, and the control of pollution. (\$4,631,000)**

Ecuador faces an urgent challenge in protecting the environment. For too long the country's economic growth and development strategies have been based on activities that are highly extractive in nature. Ecuador is one of the world's richest sources of biodiversity. Unfortunately, current policies and related consumption patterns are threatening these resources, human health and economic sustainability. Activities under this objective are focused on changing such policies and consumption patterns.

Activities. USAID's activities in protecting the environment are concentrated on improving natural resource policies and demonstrating effective resource management practices in local communities. USAID is helping the GOE to make operational a presidential commission to develop a comprehensive environmental action plan. Additionally, USAID funding is being provided to support natural resource policy studies, to expand environmental education and technology transfer, and to protect national parks, especially through NGO involvement in these areas.

Indicators. The following indicators measure the progress in achieving this objective: (1) Complete and implement the environmental action plan, and achieve 90% implementation of the recommendations by 1997; and (2) improvement in abundance and distribution of species in and around selected protected areas.

Feasibility and Cost-effectiveness. As in other strategic objectives, USAID-supported activities are oriented toward supporting the public and private sectors in making major reforms, in this case, in protecting the environment. Operational programs have the purpose of serving as models for the entire country. Accordingly in the policy area, USAID assistance has led to the establishment of a Presidential Environmental Advisory Commission (CAAM), which is defining Ecuador's strategy for protecting the environment. Under operational activities, innovative environmental management strategies with four indigenous groups, whose people inhabit the Amazonian and coastal regions of Ecuador, are being implemented. Such activities are cost-effective principally because they are directed at important policy reforms and strategy formulation which will set the stage for implementation by the Ecuadorians and for other donor support.

Progress in 1993-1994. The major accomplishment in this period has been the establishment of the Environmental Advisory Commission which has been charged with the development of a nationwide environmental action plan and has assumed the role of resolving national environmental issues such as those issues affecting the Galapagos islands and supporting more effective environmental measures for petroleum exploration and development. Accomplishments with the environmental management activities with the four indigenous groups include development of ecotourism models to provide employment, training parabiologists in ethnobotany to preserve indigenous knowledge, and empowering the indigenous groups to address legal issues through paralegal training. USAID's continuing support of Ecuadorian NGOs has recently led to addressing urban or "brown issues" and industrial pollution.

Donor Coordination. USAID activities are being closely coordinated with the World Bank's Global Environmental Fund (GEF) activities in Ecuador. In the future, the GEF could continue funding efforts begun by USAID.

Constraints. The primary constraint is the magnitude of the problem of environmental degradation and

the complexity of interests which involve indigenous groups, petroleum and companies and other groups. The GOE's weak ability to follow through on policy reforms and laws already approved is also a significant constraint.

#### Other Donor Resource Flows.

USAID provides only a small portion (ranging from 5% to 7%) of total donor assistance (grant and loan) which is provided mostly by the IDB and the World Bank. USAID assistance (comprising the largest portion of grant assistance, 20% of total grants) has been well directed at policy activities and support for effective NGOs, and has served to facilitate removal of constraints to the delivery of other donor assistance. USAID assistance, therefore, plays a catalytic role in helping and influencing other donors to design and implement their substantial assistance to Ecuador.

## ECUADOR

### FY 1996 Program Summary

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Increase Sustainable Economic Growth	3,009,000				3,009,000
2. Increase Use, Effectiveness and Sustainability of Family Planning and Health Services	3,463,000	4,696,000			8,159,000
3. Improve Responsiveness of Selected Democratic Institutions				2,451,000	2,451,000
4. Promote Sustainable use of the Natural Resources Base			4,631,000		4,631,000
<b>Total</b>	<b>6,472,000</b>	<b>4,696,000</b>	<b>4,631,000</b>	<b>2,451,000</b>	<b>18,250,000</b>

USAID Mission Director: John A. Sanbrailo

## EL SALVADOR

**FY 1996 Development Assistance Fund Request:.....\$41,604,000**

El Salvador is one of the world's very few examples of a country emerging from a long civil war to forge a successful, democratic nation. The new nation is being built on a solid foundation of sustainable economic policies, free market principles and practices, and a growing concern for an equitable distribution of the benefits of economic growth. U.S. Government assistance has played an important role in assisting this success, and U.S. interests are well served by ensuring that the gains made at such great cost in human and financial terms are solidified.

U.S. assistance was vital in helping El Salvador survive and begin to recover from the country's 12-year civil war. The United States played a pivotal role in discussions leading to the Peace Accords that ended that war in January 1992 and has since provided major contributions to the initiation of programs to support peace. Following through with this support is crucial to avoidance of a return to conflict. To this end, the U.S. assistance program is financing a number of activities that could literally mean the difference between war and peace: combatting poverty, fulfilling commitments to reconstruction, encouraging democratic reforms, promoting economic growth, fostering improvements in the social sectors and the environment, and others. These activities directly affect the United States by eliminating political instability which caused hundreds of thousands of Salvadorans to immigrate to the US (most of them illegally); by strengthening the Salvadoran economy which develops an ever expanding market for US goods and by protecting the global environment which we all share.

### **The Development Challenge.**

El Salvador's comprehensive economic reform program is resulting in real economic growth (a gross domestic product growth rate of more than 6% in 1994), lower inflation, improved fiscal performance, major gains in investment, substantially higher employment, and increases in nontraditional exports.

However, El Salvador still is a poor country, suffering from the societal polarization caused by twelve years of internal conflict. Half of the population lives below the poverty line. Over one fourth of the population lives in the 115 municipalities that comprise the ex-conflictive zones and bore the brunt of the civil war. Access to social services is unequal, and adherence to the ideals of democratic rights and responsibilities are in the early stages.

Through its assistance program, USAID is helping to accelerate and institutionalize major changes taking place in El Salvador in a number of areas. In so doing, USAID works with a broad range of development partners: nongovernmental organizations (NGOs), host country government agencies, and bilateral and international donors.

### **Strategic Objectives (SOs).**

The USAID program in El Salvador is characterized by five inter-related strategic objectives which directly support overall U.S. Agency for International Development objectives.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$24,357,000).**

##### **SO 1. Assist El Salvador make the transition from war to peace (\$1,626,000).**

Development actions aim to reactivate the factors of production to respond to economic opportunities, reestablish access to basic social services and infrastructure, build local level democratic institutions and increase civic participation, and reintegrate ex-combatants into the fabric of the nation. Most of the activities reflect commitments assumed under the January 1992 Chapultepec Peace Accords.

Activities. Although a number of activities throughout the USAID portfolio provide assistance to the beneficiaries and areas targeted, the large peace and national recovery project is the primary USAID tool for achieving this objective. This project provides training for ex-combatants to ease their re-entry into productive society. The Project also provides agricultural and small enterprise credit, financing for transferring land to many people affected by the war, and construction of schools, clinics, roads and bridges in the exconflictive zones.

Indicators. Among the USAID indicators for measuring progress toward achieving this objective are: free and open elections in 1994 and 1997; provision of vocational or academic training to 20,000 ex-combatants; provision of land and agricultural credit to large numbers of ex-combatants and persons working the land without title.

Feasibility and Cost-effectiveness. The signing of the Peace Accords and the 1994 general elections are evidence of a national will for peace. High levels of participation by the Government of El Salvador and the Faribundo Marti National Liberation Front(FMLN) in the national reconstruction process are also evidence that the National Reconstruction Program is succeeding. Level of investment, \$300 million, on the part of the USG in that program has contributed to three years of peace, continued dramatic economic growth, and an expansion of social and infrastructure services available to the 1.4 million residents of the ex-conflictive zones. It has led to the gradual re-incorporation of over 18,000 ex-combatants into the mainstream of society through training and rehabilitation. Funds provided under the program have been used to purchase almost 120,000 acres of land for more than 17,000 beneficiaries.

Progress in FY 1993-1994. More than 70 separate activities have been implemented under the Peace and national recovery project. More than 2,000 small infrastructure projects have been executed through municipalities in action programs. Services provided to ex-combatants through NRP have been extensive and produced significant results. As of August 1994, over 16,000 ex-combatants from both sides have received vocational, agricultural or microenterprise training; 10,200 have received microenterprise or agricultural credit, and thousands of individuals wounded in the war have received surgery and specialized treatment, prosthetic devices if necessary, and rehabilitation. About 130 Non-Governmental organizations, more than 90% of them indigenous Salvadoran groups, have been involved in the program, and approximately \$70 million has been channeled through them.

Donor Coordination. A total of \$800 million dollars (including the \$300 million of the U.S. Government) was pledged by numerous bilateral and multilateral donors to support the implementation of El Salvador's Peace Accords and to promote the transition from war to peace. The U.S. Government has works closely with the donor community to identify priority areas for assistance and maintains a continual dialog process in-country, at the Washington level and through the Consultative Group mechanism to ensure that the priorities identified in the Peace Accords are being adequately funded. Although funds have been slow to materialize in many cases, they are coming in and being used to support many of the activities described above and others.

Constraints. Continued political will of both the new government and the opposition to work together is critical; to date there is every indication that such will is strong. Other major factors which could impact on achievement of the strategic objective are the success of the land program and continued economic growth. The overall success of the land program depends on recipients not just receiving a title to land, but having access to productive assets such as credit and technical assistance.

**SO2. Broad-based economic growth increased (\$ 11,544,000).**

Assistance focuses on combating poverty through appropriate social and economic policies and increased private investment, exports, and employment. New economic policies are creating an environment with better incentives and support for lower-income people, the majority of whom are employed in the agriculture sector, thus providing opportunities for increased productivity and improved

incomes and quality of life.

**Activities.** USAID has been a leader in provision of technical and financial assistance to encourage and support a broad range of important and successful economic measures in El Salvador. Of course, an increase in overall wealth does not guarantee equity. Therefore, the USAID program concentrates on the predominantly rural poor majority, helping to provide sustainable income and access to social services, and bringing them into the larger economy. For example USAID supports projects which assist small coffee farmers to access credit and technical assistance. The SABE Project provides curriculum development and assistance to help kids stay in school through the sixth grade. Through the National Rural Electric Cooperative (NRECA) electricity is being provided to rural areas for the first time. US Private Voluntary Organizations (US PVOs) such as The Cooperative League of the USA (CLUSA) and TECHNOSERVE are assisting small farmers and cooperatives to produce and market high value crops such as sesame, organic coffee, melons and flowers. FINCA, another US PVO implements a project which creates village banks and is providing credit to over 30,000 micro entrepreneurs.

**Indicators.** Progress toward achievement of the objective will be measured by a number of indicators, including: (1) an increase of 2.7% per year in the index of real gross domestic product per capita and (2) a steady decrease (from 91% in rural areas and 41% in urban areas in 1992 to 86 and 36% before 1996) in the percentage of households with one of four basic needs unmet. This standard list of basic needs calls for less than three people per bedroom, access to potable water, access to sanitary sewer or latrine, and all children aged 7-10 attending school.

**Feasibility and Cost-effectiveness.** USAID has chosen a mix of project and non-project assistance to modernize the state and maintain overall economic growth. This assistance encourages and supports economic policy reform as well as changes in the roles of institutions. The significant macroeconomic reforms and successes in El Salvador and the gradually improving equity in the society attest to the feasibility of activities implemented. The far-ranging programs that make these improvements possible are expensive and vitally important to result in changes throughout the society.

**Progress in 1993-1994.** The Government of El Salvador with support from USAID's Modernization of Salvadoran Taxes and Integrated Financial Management projects has reduced tax evasion and increased its budget for social programs. It has begun to increase the quality and coverage of government services such as education, health, and economic infrastructure. NGOs supported through USAID programs have a large role in the new scheme. Inflation, most harmful to the poor, has been held to less than 10% ; low inflation and increased per capita GDP mean that the average rural family now has more real income than in 1992.

**Donor Coordination.** The World Bank and the International Monetary Fund have been particularly active in this area and have plans for major programs that would modernize the state, implement privatization activities, and encourage reforms that would lead to greater equity. USAID works very well with these organizations; our recommendations are taken into account as they develop their programs; and our activities are mutually supportive.

**Constraints.** Financial commitments of other donors do not always materialize as promised or within the timeframe expected. An unusual natural phenomenon, such as drought, could have greatest impact on the poor, thereby holding back progress on equity. Changes in immigration policies in the United States. would have immediate and direct effect on the large amounts of financial remittances now entering the economy and could affect social stability. Also, implementation of reforms could fall short of expectations.

**SO4. Improved quality with equity in health and education and stabilizing population growth (\$16,814,000 of which \$11,187,000 is for economic growth and \$5,627,000 is for population).**

Health and education are fundamental building blocks in the economic and democratic development



of El Salvador. Diarrhea, acute respiratory infections and vaccine-preventable diseases and malnutrition continue to be major health problems. Similarly, a significant portion of the population lacks the basic skills of literacy and numeracy. These problems severely limit the opportunity to become economically productive and informed and retard active participation in local and national democratic processes. Basic education, health and child survival activities and indicators are described below.

Similarly, rapid population growth could put enormous pressure on the land, the productive capabilities, and the social services of this country as it struggles to overcome effects of the 12-year civil war. With a population density of 240 people per square kilometer, El Salvador is the most densely populated mainland nation in Latin America. Success in decreasing the rate of population growth is another critical element in achieving the strategic objective.

Activities. USAID activities implemented under this objective strive to increase access to and improve the quality of primary education, promote increased contraceptive prevalence, and increase coverage for reproductive health care and child survival programs. Major basic education, health and population projects provide a broad range of educational materials, contraceptives, training for teachers and health providers and institutional strengthening for both public and private sector entities. To increase nationwide accessibility to modern contraceptive methods, USAID programs emphasize the rural areas, which have in the past participated far less than the urban areas in all types of population/family planning/child survival programs. Training is provided for health suppliers; contraceptives are offered; demographic surveys and information campaigns are carried out; and grass-roots involvement of local NGOs and PVOs is financed.

Indicators. Among the indicators of progress toward achievement of the objective are: (1) enrollment in the first through sixth grades will rise from 65.2% in 1993 to 70.2% in 1997, (2) number of children under five receiving complete vaccination series in four diseases increases from current level of 75.3% to 79% in 1996, (3) the average contraceptive prevalence rate will increase from 47% in 1988 to 56% in 1994, and (4) the average total fertility rate will drop from 4.6 children per woman in 1988 to 3 in 1997.

Feasibility and Cost-effectiveness. Over the past year sectoral analysis has provoked a high degree of interest on the part of the Government of El Salvador, health and education professionals, private voluntary organizations and other donors in better addressing the problems confronted in health and education. In addition, USAID technical assistance efforts are being linked to proposed policy and budgetary reforms under Modernization of the State programs and to increased social sector budget allocations by the government. Numerous studies have shown that health, population and education dollars have significant people-oriented impact and long-term nation-building benefits.

Progress in 1993-1994. Financed by USAID assistance, nationwide assessments in health and education brought together participants from a broad range of public and private sector institutions and community groups to discuss problems and opportunities in these areas and plan reforms. Partly as a result of these sessions, the Ministry of Education has begun to decentralize, bringing decisions and services closer to the beneficiaries. The number of children achieving basic education objectives, as defined by graduating from sixth grade, has increased from 70,000 to 112,000. All 4,500 public primary schools now have textbooks. More than 7,000 teachers were trained in the use of new curricula in 1993, with an additional 6,700 trained in 1994. Maternal and child health services have been extended to high-risk populations in 1,500 of the country's poorest and smallest communities. Some 350 health promoters and more than 2,200 physicians and nurses received training in 1993, with similar numbers in training in 1994. Progress brought about by population program activities has also been dramatic. A National Health Survey conducted in 1993 shows that the average national contraceptive prevalence rate reached 53.3 percent in 1993 (from 47.1% in 1988) and the total fertility rate in El Salvador has decreased from 4.6 children per woman in 1988 to 3.85 children per woman in 1993.

Donor Coordination. Bilateral and multilateral donor organizations are very active in this area. Both

the World Bank and the Inter-American Development Bank have major health and education programs scheduled to start in 1996. They include elements recommended in the assessments mentioned above. In the population field, USAID is by far the largest donor, with UNFPA and PAHO providing small amounts of assistance. Other donors appreciate USAID leadership and capability in this area and have not indicated any intention to provide significant funding. Many of the USAID activities are administered by and through NGOs.

**Constraints.** Major constraints in the health and education sector are under-investment by the government, lack of trained personnel (particularly in the rural areas), lack of supplies and materials, centralization of decision-making and a lack of community involvement. In the population sector, religious, cultural, and folk beliefs and practices constrain growth in the use of contraceptives, but a larger constraint is the lack of enough resources and trained providers to meet the ever-increasing demand for services.

This strategic objective addresses both broad-based economic growth and population goals.

## **PROTECTING THE GLOBAL ENVIRONMENT (\$6,066,000).**

### **SO 5. Improved environmental and natural resource management (\$6,066,000).**

El Salvador's natural resources are dwindling fast. This can have a major negative impact on the country's ability to support its population and on the quality of life. Pressures of an overcrowded and still growing population, uneven distribution of wealth, and an expanding economy are the principal reasons for the over-exploitation of natural resources. The depletion and degradation of renewable and non-renewable resources are impediments to long-term, sustainable development.

**Activities.** USAID assistance in improved environmental and natural resource management is helping to create and implement the legal framework for natural resource use, increase public awareness of environmental problems, and improve productive activities consistent with sustainable natural resources management. For example, soil conservation, watershed management, and other environmentally sound practices are being taught.

**Indicators.** Progress toward meeting this strategic objective is being measured by a number of indicators, including: (1) the design and implementation of a multi-sectoral policy framework for sustainable natural resource use, (2) increased nationwide public awareness and understanding of environmental problems (measured by periodic CID-Gallup polls), and (3) improvements in agricultural production consistent with sound environmental practices.

**Feasibility and Cost Effectiveness.** Water availability, soil erosion, and deforestation are interconnected and can be addressed simultaneously. The initial step is to mobilize demand for sustainable economic development by sensitizing the population and decision makers about the importance of conserving these resources. Working with the private sector, NGOs, and the government, USAID's program will improve the regulatory framework for natural resource management and will strengthen the institutions which manage it. The long-term effect of these actions will be the implementation of conservation programs to arrest deforestation, slow the deterioration of soils through erosion, and protect renewable water resources.

**Progress in 1993-1994.** The government has recognized the multi-sectoral nature of natural resource management, acknowledging the importance of both brown and green issues. El Salvador now conforms to the CITES treaty on endangered species and has created a national environmental fund to promote NGO solutions to public problems. The Fund was established in exchange for debt forgiveness by the United States and Canada. A national environmental strategy has been completed and laws and regulatory mechanisms are being put into place. One long-term indicator of progress toward achievement of the objectives, increased awareness of environmental problems, has already

been far exceeded. In 1993 only 15.3% of men and 12% of women polled could name three environmental problems. The target level of 25% percent by 1997 was attained and exceeded just one year later when 42.8% of men and 30.7% of women in 1994 could do so.

Donor Coordination. Many bilateral and multilateral donors are extremely interested in this field and are contributing small amounts of funding to various facets of it. A major donor coordination effort is now underway to maximize resources and better focus efforts. The United States, Canada, Germany, the Interamerican Development Bank and others are involved.

Constraints. The GQES budget and policy priorities may not always reflect the needs of sustainable natural resource management. Also, financial commitments of donors are slow in coming and may not materialize as promised.

## **BUILDING DEMOCRACY (\$5,554,000).**

### **SO 3. Strengthened democratic institutions and practices (\$5,554,000).**

Development of democratic institutions and policies has proceeded quickly and well in El Salvador, due in large measure to reforms mandated by the Peace Accords and to a series of activities instituted by USAID to support and implement these reforms. The major concern and goal in this area is continued compliance with the provisions of the Peace Accords.

Activities. USAID activities in support of this strategic objective aim to improve citizen participation in the public policy and decision-making process, provide a better framework for effective protection of human and citizen rights, improve mechanisms to ensure public accountability and oversight and increase the devolution of power to the local level. Examples are activities to promote voter registration and free and fair elections, assist major improvements in legislative and judicial systems and practices, help to institute improved and more transparent financial management and audit practices, and foster municipal development.

Indicators. A few key indicators to measure progress toward achievement of this objective include: (1) an increase in the number of Salvadorans registered to vote from 72% of eligible voters in 1993 to 95% in 1994, coinciding with national elections; (2) a reduction in the courts of criminal case backlog more than one-year old from 70 percent in 1993 to 33 percent in 1997; (3) an increase in average national attendance by communities at open town meetings from 63% in 1992 to 90% in 1996; and (4) new accounting systems in all 22 government ministries.

Feasibility and Cost-effectiveness. The costs of firmly establishing democratic institutions, practices and values are very small in comparison to the enormous costs of not having them. The proof is the 12 years of civil war waged at incalculable financial and human costs, in large part as a result of lack of those very institutions and practices. As one concrete example, approximately \$2.3 million was spent on voter registration campaigns and systems, resulting in voting cards for over 620,000 people. This is a small cost, \$3.67 per person, for the right to vote.

Progress in 1993-1994. A milestone indicating that democracy is becoming established in El Salvador was the peaceful 1994 election in March and April which produced a greater diversity in the country's Legislative Assembly. Healthy debate and diversity in the Assembly has resulted in an improved Supreme Court, which should strengthen the judicial system, and increased vigilance which reduces opportunities for impunity. The central government is slowly devolving authority to the local level. Implementation of the User Fee Law, allowing municipalities to collect user fees, has resulted in an average increase of 70% in locally generated revenues. In the area of administration of justice, the Family Code and the Law for Juvenile Offenders were passed and the Criminal Code, Criminal Procedures Code and Penitentiary Law were sent forward to Congress. A quiet revolution, marked by constitutional reforms and new financial management laws, is taking place in the management of

government financial resources. All are encouraging signs that a political and popular will for democracy exists and should continue to be strengthened. Under the Central American Peace Scholarship program, 650 people have been trained since late 1990. The follow-up program estimates that each of these scholars passes on his or her experiences to 100-140 people, extending program reach to up to 90,000 people.

Donor Coordination. USAID is the primary donor in this field, although many others are involved in one segment or another, particularly in supporting elections and strengthening grass-roots, participative organizations. The Interamerican Development Bank has pledged to play a strong role in this area in the future. The United Nations has played the lead role in monitoring compliance with the Peace Accords.

Constraints. The country's long history of political controversies and lack of attention to democratic systems and practices could constrain achievement of the objective. Continued vigilance and will to act against corrupt individuals and practices within the judicial system might not be forthcoming over the long run. Another constraint, even with the best of political will, is the sheer volume of new laws and procedures and reforms that need to be implemented. If USAID assistance in judicial reform is a victim of aid cutbacks, an important opportunity to strengthen this sector could be lost.

#### OTHER DONOR RESOURCE FLOWS

In 1993, the United States provided 36% of all multilateral and bilateral funding. Other leading donors are the World Bank, Inter-American Development Bank, Central American Bank for Economic Integration (CABEI), the European Community, Germany and the United Nations World Food Program.

EL SALVADOR FY 1996 PROGRAM SUMMARY					
	Encourage broad- based economic growth	Stabilizing population growth	Protecting the environment	Building democracy	TOTAL
1. Assist El Salvador make transition from war to peace	1,626,000				1,626,000
2. Broad-based economic growth increased	11,544,000				11,544,000
3. Strengthened democratic institutions and practices				5,554,000	5,554,000
4. Improved quality with equity in health and education	11,187,000	5,627,000			16,814,000
5. Improved environmental and natural resource management			6,066,000		6,066,000
<b>TOTAL</b>	<b>24,357,000</b>	<b>5,627,000</b>	<b>6,066,000</b>	<b>5,554,000</b>	<b>41,604,000</b>

USAID Mission Director: Carl H. Leonard

## GUATEMALA

**FY 1996 Development Assistance Fund Request: . . . . . \$31,152,000**  
**FY 1996 P.L. 480 Title II Request: . . . . . \$ 9,784,000**

The political violence of the last 33 years, which adversely affected Guatemala's economic development, is moving toward resolution, albeit unevenly, as the Government of Guatemala (GOG) and the Guatemalan National Revolutionary Unity (URNG) peace talks proceed under the sponsorship of the United Nations. U.S. interests are clearly served by a successful outcome to the current peace talks through a democratic and prosperous Guatemala. Peace and an improved human rights climate will greatly reduce the number of refugees who have fled the country in recent years. Guatemala also represents a growing and more accessible market for U.S. exporters and investors. In 1993, two-way trade between Guatemala and the U.S. totaled \$2.4 billion. A wide range of U.S. governmental and nongovernmental groups have strong interests in improved protection of and respect for human rights in Guatemala. The USAID program is aimed at supporting the transition to peace in the near term, and continuing the task of building durable democratic institutions and a sustainable economy in Guatemala over the medium and long term.

### **The Development Challenge.**

Guatemala is the largest Central American country in terms of both population (10 million) and economic activity (1993 gross domestic product \$11.4 billion in current dollars). However, distribution of land, income, and other assets is highly skewed toward a small share of the Spanish-speaking population, thus causing sharp divisions in Guatemalan society. The indigenous populace, speaking 23 different Mayan languages, generally lives in extreme poverty and isolation in rural areas. The country's social indicators are among the worst in the Western Hemisphere, and the averages mask even sharper inequalities between social groups and regions. For example, overall adult illiteracy is estimated at 52% but illiteracy rates among Mayan women in some areas approach 88%. The Guatemalan population is growing at the rate of 3.1% per year with a total fertility rate of 5.2 births in an average woman's lifetime as a result of unmet demand for contraceptive methods. These indicators reflect persistent underinvestment in social services and basic rural infrastructure. Macroeconomic policy reform has led to stabilization of the economy and the growth of nontraditional exports in the agricultural and light manufacturing sectors. However, tax reforms supported by both the public and private sector and a complete overhaul of the GOG's financial administration, remain critical for addressing, through public investment, the social inequities cited above.

To address the root inequities which gave rise to the armed conflict of the last 33 years, and to spur economic growth on a sustainable basis, major challenges exist in promoting smaller, healthier families, protecting environmentally fragile areas, and broadening access to the benefits of growth. Development of Guatemala's human resource base is a key factor in meeting the challenge to increase productivity and the incomes of the poor. Parallel to these efforts in the social and productive sectors, democratic institutions must be strengthened, community participation increased, and rule of law and respect for human rights established as norms if Guatemala is to enjoy a lasting peace.

### **Strategic Objectives (SOs).**

USAID is pursuing five strategic objectives in Guatemala. In addition, the entire program is designed to meet the cross-sectoral development challenge of supporting Guatemala's transition to peace.

## **BUILDING DEMOCRACY (\$1,969,000).**

### **SO 1. Strengthening democratic institutions, civil society and the rule of law (\$1,969,000).**

Support for democratic development in Guatemala is an integral element in resolving the civil conflict, improving the human rights climate and fostering political and socioeconomic stability. Institution building and systemic reform, particularly in the judicial sector, will bring improved protection of human rights and increased accountability in public and private affairs. Strengthening of civil society will mean improved public knowledge, attitudes and behaviors necessary for the deepening of democratic norms and the sustainability of democratic governance.

Activities. With the underlying theme of strengthening democratic institutions and increased civic participation, the strategy seeks to establish norms of rule of law, respect for human rights, greater responsiveness and accountability of government institutions. The program supports civic education and human rights activities carried out by nongovernmental organizations and the government's Office of the Human Rights Ombudsman (OHRO), while continuing major assistance directed to the reform of the justice sector. Should a peace agreement be reached in 1995 and additional funding be available, activities in civic education and leadership development will be extended to the ex-conflictive zones, as will support for the decentralization of government services for the provision of justice, the protection of human rights, and greater civilian-controlled governance.

Indicators. The principal indicators for measuring this objective are: (1) improved due process under the law, i.e., increased credibility (favorable ratings) of key justice sector actors, as measured by national survey between 1993 and 1995 (e.g., defense of human rights by judges from 9.8% to 15%); (2) increased individual free expression and participation, i.e., increased democratic liberties index (recognition of democratic liberties, participation, right to dissent) from 62% to 64%; and (3) public confidence in key democratic institutions and processes maintained, or increased slightly, i.e., increased system support index (courts, electoral tribunal, congress, political parties, etc.) from 40% to 42%. Baseline data for the measurement of citizens' attitudes and values was derived from a 1993 public opinion poll.

Feasibility and Cost-effectiveness. Though this has been a volatile period in Guatemalan history, there are unique opportunities emerging to encourage greater opening of civil society, to engender tolerance for free expression, and to implement reforms in the judicial sector. USAID's long history of experience with administration of justice programs in Guatemala, as well as the growing number of local NGOs gaining importance in the democracy arena, offer feasible vehicles for implementing this program strategy. Moreover, USAID carefully targets its scarce funding only to activities for which the GOG has demonstrated sufficient political will and commitment of its own resources.

Progress in 1993-1994. Performance has been mixed as the program experienced delays resulting from the general turmoil in Guatemalan national politics beginning with the May 1993 "self-coup" of the then President. USAID assistance to the legislative branch was suspended in January 1993 as a result of weak leadership, ineffectiveness and credible allegations of widespread corruption. Assistance was restored after a special election to replace the Congress was held in August 1994, as part of the new President's effort to purge corruption from government institutions. Weak leadership and failure to fulfill its mandate led to a partial suspension of assistance to the Human Rights Ombudsman. To strengthen civil society and respond to the weakness of these key public institutions, USAID accelerated its plans to provide support to NGOs for civic education and outreach, particularly among rural indigenous populations. USAID assistance is helping key justice sector institutions to implement oral trial proceedings, a public defenders program and other elements of the new criminal procedures code, thus contributing to greater access to and transparency in the criminal justice process.

Donor Coordination. Aside from the human rights area, other donor support in the area of democratic development has been minimal. Since a substantial portion of the Peace Accords addresses justice, human rights and equity issues, international donors who support the Accords are likely to commit new funds that will complement current USAID resources targeted at democratic development. USAID will continue to coordinate with other donors through participation in the advisory body to the technical committee charged with planning the implementation of the Peace Accords.

Constraints. Guatemalan democracy is set on an extremely weak and fragile attitudinal and institutional base. The heritage of 33 years of civil war brought a strong military presence into all aspects of society, often to the detriment of civilian control. If the Peace Accords now being negotiated fail, armed violence could rekindle and the ground gained in fostering democracy, respect for human rights, and increased tolerance for democratic liberties, would most likely be lost.

#### **STABILIZING POPULATION GROWTH (\$9,727,000).**

**SO 2. Promoting smaller, healthier families (\$24,745,000, of which \$14,961,000 is DAF and \$9,784,000 is PL480 Title II).**

Guatemala's ten million population is growing at the rate of 3.1% per year. At this rate, the current population will double in 22 years. Sixty percent of Guatemalan women surveyed do not want any more children, while 40% of those who do want more children say they want to wait at least two years for their next child. The high demand for contraceptive methods is left unmet, especially in the rural areas where the majority of the Mayan population reside. The lack of culturally acceptable, family planning services, integrated with high quality, yet simple and inexpensive, child survival activities is the major contributor to the high infant, child and maternal mortality rates in these areas. Achievement of this objective will accelerate the demographic transition in Guatemala (reducing the birth and death rates) leading to an overall stabilized growth rate and a healthier, more productive population.

Activities. USAID supports the delivery of culturally sensitive, high-quality reproductive health services. This support will be increasingly focuses in rural, Mayan communities, and delivery mechanisms (GOG, PVO and Private sector) will be judged based on their success in addressing the most pressing health needs of the target population and cost effective impact on the critical health indicators cited below. Towards this end, USAID will help finance a comprehensive and flexible GOG/NGO strategy to promote immunization efforts, oral rehydration therapy, the treatment of acute respiratory infections, greater access to family planning methods, and pre-natal care and safe birthing practices. In addition, USAID/G-CAP continues to support MCH interventions with food assistance. The USAID will also continue its successful efforts to influence policy makers of the importance of family planning to the lives of mothers and children, as well as its impact on sustainable development in Guatemala.

Related Activities. Activities under the basic education objective promote smaller, healthier families. Studies show that a population with even six years of basic education is healthier and more productive. USAID's emphasis on increasing girls' school enrollment will delay marriage and reduce fertility.

Indicators. Indicators for measuring this objective are: (1) decrease the total fertility rate (the number of births in an average woman's lifetime) from 5.2 in 1994 to 4.8 in 1999; (2) decrease the infant mortality rate (infant deaths per 1,000 live births) from 68 in 1994 to 63 in 1999; (3) decrease the child mortality rate (under five year-old deaths per 1,000 births); and (4) decrease maternal mortality rate (deaths of women of reproductive age per 100,000 live births). Targets for the latter two indicators will be determined by a nationwide 1995 demographic health survey.

Feasibility and Cost-effectiveness. When family planning services and maternal and child health interventions are available, families use them. Child spacing saves children's lives. USAID's operation

research is aimed at developing service delivery models that work in the cultural context of Guatemala and that are cost-effective.

Progress in 1993-1994. The contraceptive prevalence rate has increased from 27% in 1987 to an estimated 31% in 1995. Only 5% of the rural, indigenous population use contraception; so the IPPF affiliate is extending its services to this large, unserved population. The couple years of protection provided through USAID support increased from 361,000 in 1991 to 542,000 in 1994; an increase of 50%. Vaccination coverage for children under five years of age for the killer diseases (polio, measles, diphtheria and tetanus) increased from 5% in 1985 to 72% in 1994. A new, cheaper treatment for pneumonia, a major killer of children, has been developed and is being applied in the third of the country that most needs it. Extensive public debate over family planning occurred before and after the International Conference on Population and Development in Cairo. The debate resulted in the vast majority of people deciding in favor of the need for broad-based, family planning services.

Donor Coordination. USAID is by far the lead donor in family planning and maternal health, but has successfully encouraged other donors and NGOs to enter the sector. In the broader health sector, USAID uses the interagency Maternal Child Health Committee, chaired by the Ministry of Health, as the principal mechanism for donor coordination and transfer of USAID experience. USAID is working closely with the World Bank and the Inter-American Development Bank (IDB) as they design a large health sector reform program based on policy benchmarks relating to decentralization of Ministry services.

Constraints. After 500 years of isolation, racism and repression, the indigenous population, almost half of Guatemala, is suspicious of modern ideas, including modern family planning practices and child survival interventions. Their cultural and geographic isolation from the Spanish-speaking ladino population is amplified by the fact that they are separated from each other by 23 distinct languages. In addition to addressing population growth, this objective also addresses economic growth through activities focused on immunization and improved health; and on humanitarian needs through the provision of PL480 food resources to nutritionally at-risk populations.

## **PROTECTING THE ENVIRONMENT (\$4,687,000).**

### **SO 3. Environmentally sound natural resource management (\$4,150,000).**

USAID's strategy focuses on environmentally sound management and sustainable use of Guatemala's natural resource base to brake the accelerating downward spiral of environmental degradation and poverty. An example is the destruction of more than half of the natural forest cover in the Peten, one of the most important ecosystems in the Western Hemisphere, between 1960 and 1990. USAID supports local efforts to develop and implement enduring solutions to poverty by balancing the need for economic development with the maintenance of healthy, functioning ecosystems required to support such development over the long term.

Activities. USAID promotes sound management of Guatemala's largest and most important system of protected areas (the 2.1 million hectare Maya Biosphere Reserve) in the lowland tropical forests; and improved watershed management and hillside farming systems in the highlands. Land use planning, training of extensionists, environmental education, and development of new products and value-added processes which are more appropriate for specific sites are among the activities designed to provide sustainable income streams and to conserve biodiversity. USAID supports improved soil conservation practices, and agroforestry, water and park management, as well as related policy initiatives to ensure that the legal and regulatory framework facilitates protection of the environment. In support of the peace process, USAID provided partial funding for a refugee reintegration assessment which addressed, among other things, the environmental issues related to the resettlement of the refugees and the displaced populations.



**Related Activities.** Since unchecked, unsustainable population growth represents the greatest threat to the environment in Guatemala, activities under the smaller, healthier families objective are critical to the achievement of this environmental objective. Likewise, primary education is key to instilling a respect and appreciation for the natural resource base, and a functioning judicial system will help ensure adherence to and enforcement of environmental standards.

**Indicators.** The principal indicator for measuring this objective is the reduction of deforestation trends. Targets in the Peten call for the conservation of over 600,000 hectares by 1998 which would have been converted from natural (predominately forest) cover to slash-and-burn agriculture. Other major indicators include: an increase from 20% in 1994 to 58% in 1996 of target population which adopts more appropriate land-use practices in project areas; and a qualitative judgment as to the presence of an improved policy regime.

**Feasibility and Cost-effectiveness.** The effectiveness of USAID activities is enhanced by an approach which integrates site-specific field activities with policy interventions and donor coordination at the national level. USAID increasingly focuses on improved management and conservation of priority areas not already heavily degraded because the cost of successful rehabilitation of degraded tropical ecosystems is 15 to 20 times greater than the cost of promoting sound management from the start. Cost effectiveness is further enhanced by designing activities to protect and conserve biodiversity and tropical forests through sound economic development alternatives, thereby assuring a continuing stream of both economic and environmental benefits over the long term.

**Progress in 1993-1994.** Significant progress has been made in disseminating environmentally sound productive practices, i.e., for improved management of forests, and for traditional and nontraditional export production. Preliminary data indicate that more than 250,000 hectares of forest have been conserved in the Maya Biosphere (which would have been converted to other uses) compared to a target of 170,000 hectares. The dissemination of improved land-use management and income-generating alternatives to over 4,000 families in 100 communities; development of 20 new products or value-added processing options, and numerous successful natural resource management policy reforms; contributed to this achievement.

**Donor Coordination.** USAID urges other donors to require environmental impact analysis in all projects which they plan to fund. USAID coordinates activities in the Maya Biosphere reserve area and implementation of policy reform with the World Bank, IDB and the German Technical Cooperation Agency (GTZ). In support of Guatemala's transition to peace, USAID and the United Nations High Commission for Refugees (UNHCR) jointly funded a Guatemalan refugee rural reintegration assessment to specifically address the key socioeconomic and environmental issues facing the resettlement of refugee and displaced populations.

**Constraints.** The challenge to the success of this objective is to provide enough information and assistance, soon enough, to the growing population of poor, displaced and hungry people on the need to carefully manage the remaining resources available. As the peace process unfolds and refugees return, the pressure on the remaining resources will become greater and the opportunity for change will shorten.

USAID also assists Guatemala's environment through activities which are discussed under cross-cutting issues below.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$14,769,000 DAF).**

#### **SO 4. Increased trade and improved labor relations (\$75,000 DAF).**

Guatemalan trade has increased rapidly in the last few years, now equalling more than 45% of GDP. However, sustained economic growth through trade is constrained by an inadequate policy environment, lack of sufficient agricultural and industrial diversification and poor labor relations. By improving the policy environment and providing the skills required to increase export diversification and to build sound labor-management relations, USAID can help to establish the framework for more employment with greater sharing in the benefits of growth.

**Activities.** Activities under this objective are designed to create a more open trade regime, increase development of nontraditional exports, and improve labor relations. Direct support is provided based on the achievement of key policy reforms related to intellectual property rights, the investment registration process, non-tariff barriers and dispute resolution. Development of nontraditional exports is supported through training, applied agricultural research, technical assistance and marketing. USAID encourages improved labor relations through consensus-building training activities for labor, management and government, firm-level technical assistance and training, dissemination of the labor code and strengthening of the government's ability to apply and enforce the labor code. USAID supports the development of sustainable NGOs that can continue to work on export development and trade policy reform once USAID funding ends in 1998.

**Related Activities.** USAID's objectives of improving primary education and of environmentally sound natural resources management are both related to the economic growth goal since, without a literate skilled human resource base and efficient use of its remaining natural resources, Guatemala will not be able to sustain the level of export growth required to compete in the global economy.

**Indicators.** USAID indicators for measuring this objective are: (1) increase two-way trade between Guatemala and the United States from \$1.8 billion in 1991 to \$ 3.9 billion in 1998; (2) increase total exports from \$1 billion in 1991 to \$ 1.5 billion in 1998; and (3) comply with international labor standards, demonstrated by continued eligibility for General System of Preferences (GSP) benefits.

**Feasibility and Cost-effectiveness.** Increased trade, combined with improved labor relations, are required to ensure continued economic growth as well as a more equitable distribution of the benefits of growth in Guatemala. Guatemala has already demonstrated its political commitment to both liberalize its trade policy framework and to improve labor conditions which are prerequisites for full participation in a future free trade area. USAID activities are designed to encourage more rapid reform, as well as to put in place an institutional structure that can continue the reform efforts.

**Progress in 1993-1994.** Nearly all strategic objective targets were achieved in 1993, with two-way trade surpassing \$2.4 billion, total exports exceeding \$1.2 billion and Guatemala maintaining eligibility for GSP benefits. In addition, nontraditional exports continued to be dynamic, growing by 17% to reach \$523 million, and creating an estimated 19,000 new jobs. Specific policies were improved, including the passage of General Agreement on Tariffs and Trade (GATT)-consistent legislation on safeguards and anti-dumping, the drafting of new arbitration and intellectual property rights legislation and the approval of the Central American Convention on Industrial Property for trademarks. Thirty-seven new labor inspectors were trained and installed in offices throughout Guatemala to provide better coverage to the rural areas and training courses to prepare labor, management and the government for dialogue on labor issues.

**Donor Coordination.** The IDB is currently designing a \$70 million investment sector loan program. USAID works closely with the Bank to ensure that the program it develops will complement the Agency's policy dialogue activities. Other donors, such as the United Nations Development Program, the (UNDP), the GTZ and the European Union (EU), are providing small amounts of assistance that also contribute to this objective.

**Constraints.** The GOG must do more to address workers rights in order to avoid the withdrawal of GSP. If GSP benefits are withdrawn due to the pending 1992 petition against Guatemala for alleged violations of workers rights, the competitiveness of Guatemala's exports in the world market will be seriously affected. Likewise, the implementation of the North American Free Trade Agreement (NAFTA) could have a negative effect on Guatemala's ability to attract and keep new investment, especially in the textile and apparel area. The on-going guerilla conflict also inhibits economic growth efforts, since certain parts of the country remain excluded from receiving needed training and technical assistance.

**SO 5. Improved quality, efficiency, and equity of primary education services (\$4,270,000 DAF).**

USAID's support for primary education is a critical element in creating the human resource base required for improved economic growth and productivity, and thus supports the Agency's goal of broad-based economic growth. Activities under this strategic objective also contribute to other Agency goals of democratic participation, protection of the natural resource base, stabilization of the population growth, and improved human health. USAID's strategic objective of improved quality, efficiency, and equity of primary education services is particularly critical in Guatemala where educational indicators have remained lower than those in Latin American countries over the past decade. Of particular concern is the huge gap between educational coverage for the indigenous Mayan and the Spanish-speaking populations, and the low levels of educational achievement of girls relative to boys.

**Activities.** USAID's strategy focuses on the direct delivery of high impact, high visibility interventions to teachers, schools, and children aimed at improving the classroom environment, improving the efficiency in the allocation and use of resources, and increasing the equity of educational policies and practices. The interventions being tested in large pilot areas include: an alternative curriculum designed specifically for the one-room schools that is training teachers to develop a curriculum based on local experiences and needs, bilingual education services for Mayan students, and a girls' education program that is integrating gender considerations into the country's primary school curriculum and teaching practices, and is testing combinations of classroom-level interventions (e.g., Mayan social promoters, scholarships, and parent committees) to increase girls' school participation. At the institutional level, USAID supports a management information system which produces data for improved decision-making at the ministerial level regarding personnel administration, budget, educational statistics and physical infrastructure. In addition, support is provided for the development and execution of academic achievement tests in order to measure the impact of the three pilot interventions discussed above.

**Indicators.** The indicators for measuring progress under this objective are: (1) repetition rates in grades 1 through 3 decreased from 20.5% in 1991 to 16% in 1999; (2) completion rates for both 3rd grade and 6th grade increased from 47.4% to 54% and from 27.8% to 31%, respectively, in 1991 and 1999; (3) increased number of girls enrolled in 3rd grade, from 90,816 (46%) in 1991 to 129,670 (55%) in 1999; and (4) increased number of Mayan students enrolled in bilingual pre-primary and primary programs, from 159,259 in 1992 to 289,900 in 1999. These improvements in primary education indicators at the national level are a slow process, and will only occur through the leveraging of increased GOG investment and donor support for this sector as well as through improved and more innovative approaches to the administration of primary education services.

**Feasibility and Cost-effectiveness.** USAID's experience in the education sector has taught us that educating children is far more effective in nation-building than trying to educate adults. Two of the high-impact interventions described above, the one-room schools and bilingual education, have been proven the most promising based on thorough evaluation and improved achievement under the pilot interventions. The girls' education program is a pilot activity aimed at testing the feasibility and cost-effectiveness of a package of interventions for increasing the enrollment of girls. Both the GOG and the World Bank have endorsed the broad application of these interventions, assuring both political will and financing for geographic expansion.

Progress in 1993-1994. While pilot interventions are too recently initiated to show statistically significant improvement in continuation rates, repetition rates, and enrollment rates for girls, there has been a 13% increase in the number of Mayan students enrolled between 1992 and 1994. Additionally, USAID-financed activities are showing a positive effect on teacher effectiveness, most notably among teachers in the one-room school program. The application of the management information system to personnel administration by the Ministry of Education has reduced the time to complete teacher appointments from 8 months to 2 months, thereby improving the efficiency of the system. Finally, those one-room schools that have incorporated the school government into democratic classroom activities show a high degree of democratic behavior among students.

Donor Coordination. In large part through USAID leadership, education sector donors have united to standardize policies and to address the public sector with one voice. Actively collaborating donor agencies include the World Bank, the IDB, GTZ, the United Nations Children's Fund (UNICEF), and several others. With USAID in the lead, a coordinated program to test the decentralization of education service delivery is underway. The World Bank recently completed development of its basic education strategy for Guatemala, which essentially consists of continuing the USAID program, including all three high-impact interventions and institutional changes in the Ministry of Education. The World Bank is preparing a large loan, under which the three USAID pilot activities will be expanded nation-wide.

Constraints. In a country where race and gender discrimination have been endemic for centuries, promoting equity in education for Mayans and girls is an ambitious goal. Deep-seated cultural biases can only be changed gradually, through patient dialogue and by the force of logic -- by using the continuing successes to prove that economic and social benefits result from educational equity. Other major obstacles include the low level of GOG resources invested in primary education (1.8% of GDP in 1994) relative to most of its Latin American neighbors, and the ability of the GOG to allocate sufficient fiscal resources to sustain and expand the recurrent costs of the USAID-financed activities discussed above.

In addition to the two strategic objectives discussed above, USAID also plans to encourage economic growth through activities set forth under the second objective of smaller, healthier families and through the cross-cutting issue of supporting peace, as discussed below.

In addition to these objectives, USAID assists Guatemala's economic growth through activities that address smaller healthier families (SO2) as described in the corresponding section above.

**CROSS-CUTTING ISSUES (\$5,727,000 DAF of which \$5,190,000 is Economic Growth and \$537,000 is Environment).**

Support to Peace. Current USAID strategies support the overarching U.S. foreign policy objective in Guatemala of consolidating democracy and a sustainable market economy. However, with a Peace Accord expected to be concluded in 1995, USAID is positioning itself to focus resources in a cross-sectoral effort to ensure that the populations most affected by the armed conflict are successfully reintegrated into the national polity and economy. The USAID strategy argues that intense community development and improvements in the basic productive capacity of the affected populations are the best approaches to ensure a lasting peace in Guatemala. At projected funding levels, selected ongoing USAID activities will be reoriented to directly impact on the target areas and populations. New initiatives, principally activities designed to build democracy, will be developed.

**Other Donor Resource Flows.**

In 1992, United States assistance to Guatemala (including DA, ESF, P.L. 480 Titles I and II, Narcotics, and Peace Corps) equaled approximately 28% of all donor assistance received by Guatemala from multilateral, bilateral, and NGO sources. No other bilateral donor singly provided more than 4% of the assistance received in 1992. Economic assistance administered by USAID totaled \$44.4 million in FY

1992, \$42.1 million in FY 1993, and \$37.3 million in FY 1994. Other leading donors are the World Bank, the IDB, the UNDP and the EU.

**GUATEMALA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Providing Humanitarian Assistance	Total
<b>USAID Strategic Objectives</b>						
1. Strengthening Democratic Institutions, Civil Society and Rule of Law				1,969,000		1,969,000
2. Smaller Healthier Families						14,961,000
Dev. Assistance Fund	5,234,000	9,727,000				
P.L. 480 Title II					9,784,000	9,784,000
3. Environmentally Sound Natural Resource Management			4,150,000			4,150,000
4. Increased Trade and Improved Labor Relations	75,000					75,000
5. Improved Quality, Efficiency and Equity of Primary Education Services	4,270,000					4,270,000
Cross-cutting Issues						
Support for Peace	5,190,000		537,000			5,727,000
<b>Total</b>	<b>14,769,000</b>	<b>9,727,000</b>	<b>4,687,000</b>	<b>1,969,000</b>	<b>9,784,000</b>	<b>40,936,000</b>

USAID Mission Director: William Stacy Rhodes

## GUYANA

**FY 1996 Development Assistance Fund Request: ..... \$4,651,000**

Guyana is the poorest country in the Western Hemisphere after Haiti. Deeply impoverished, heavily indebted and burdened by the legacy of socialist economic planning, Guyana is now a nascent democracy with a freely elected Government making serious efforts to improve the economy and to strengthen democratic institutions. U.S. assistance to Guyana supports these efforts by fostering increased broad-based participation in the economy and the democratic process. The United States is serving the national interests by (1) influencing the direction, pace and scope of Guyana's economic reforms and development, (2) promoting democratic governance, (3) strengthening Guyana's adherence to the rule of law and its capacity for effective administration of justice, and (4) encouraging Guyana to adopt environmentally sound investment policies.

### **The Development Challenge.**

Guyana, a small country of 750,000 people located on the northern coast of South America, has a per capita gross domestic product (GDP) of \$575. Following independence in 1966, a leftist, authoritarian regime socialized the economy and accumulated huge foreign debts. By the end of the 1980s, the country was in a state of virtual economic collapse, and the Government of Guyana (GOG) began a fundamental shift toward democracy and a free enterprise economy. An economic recovery program, sponsored by the International Monetary Fund and the World Bank, was launched in 1989 with the goals of financial stabilization and economic recovery. Since then economic performance has been relatively good--in 1993 GDP grew by 8.3% while the inflation rate was a manageable 7.7% -- but the country continues to face daunting challenges to sustainable growth due, in large measure, to an enormous debt burden, badly deteriorated infrastructure and a severe shortage of skilled people. A recent World Bank poverty assessment found that 35% - 40% of the population was living below the poverty line. Free and fair national elections in October 1992 brought to power a new progressive government. The current government's commitment to democracy is strong, but the country's democratic institutions are weak. Strained race relations between the two largest communities, the Indo-Guyanese and the Afro-Guyanese, remain a challenge to political stability.

### **Strategic Objectives (SOs).**

USAID is pursuing two strategic objectives in Guyana; one encourages economic growth, the other helps strengthen democracy.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$2,200,000).**

##### **SO 1. Expanded economic opportunities for the urban and rural poor (\$2,200,000).**

The GOG has committed itself to fostering private-sector-led growth. By assisting Guyana's efforts to restart its stalled economy, USAID is helping ensure that the poor and disadvantaged, who form the majority of the population, will become full participants in economic change and growth.

**Activities.** Three activities contribute to achieving this objective: USAID's program to build equity and economic participation is helping to strengthen the business environment in Guyana in order to bring about economic growth with equity. Working with both the public and private sectors, USAID seeks to increase the Government's capacity to implement economic reforms and to foster the participation of private sector organizations and nongovernmental organizations (NGOs) in the formulation of economic policies. USAID also assists Guyana in implementing agriculture sector reforms. The project provides long-term technical assistance to the GOG on agricultural policy and institutional reforms. USAID's sector non-project assistance program will support reforms in Guyana's agricultural sector and

generate local currency for the GOG to use in repairing rural roads, improving drainage and irrigation and strengthening sea defenses (most of the agricultural land in production lies below sea level).

Related Activities. The Government's success in strengthening democracy will have a major effect on its ability to improve the economy. A free, open, market-oriented economy can only be sustained where there is political freedom and the rule of law. Having a functioning democracy is a prerequisite for attracting the foreign and domestic capital needed to increase economic activity.

Indicators. The indicators for measuring progress toward achieving this objective are: (1) increased employment in the private, formal sector, (2) more equitable income distribution, and (3) greater access to credit.

Feasibility and Cost-effectiveness. Among both business leaders and ordinary Guyanese, there is a great deal of support for the Government's move toward a freer, more open economy. However, despite a high level of pledges from other donors, bottlenecks remain in implementing economic reforms and creating a business environment conducive to private investment. USAID has identified a clearly defined opportunity, requiring only a very modest investment on its part, for assisting selected ministries to implement policy, legal, judicial, regulatory and institutional changes in a way that broadens participation and strengthens the voice of small, micro and nontraditional enterprises. USAID grant assistance will help the GOG institute needed reforms and meet conditions necessary to access larger flows from other donors. A relatively small amount of USAID money (\$4,651,000) will leverage a much larger sum of donor funding. Release of these blocked funds will supply badly needed inputs for the economy. Broad-based economic growth, coupled with well-targeted interventions to assist the disadvantaged, is the best way of ensuring greater opportunities for the urban and rural poor.

Progress in 1993-1994. A number of preliminary actions took place during the start-up period of the new bilateral activities. Local currency provided to the Institute for Private Enterprise Development under a PL 480 Title II Food for Peace Program significantly expanded the credit available to small and microenterprises. PL 480 local currency also supported counterpart contributions toward improving the economic infrastructure, and as a result of PL 480 conditionality, the GOG made progress in rationalizing management of irrigation and drainage systems and instituting reforms in land titling and leasing. Supported by USAID funds, the International Executive Service Corps began providing advisory services to small enterprises in Guyana. USAID provided short-term training in the United States for 27 employees of the Ministry of Finance.

Donor Coordination. The main donors providing assistance related to achieving this strategic objective are the World Bank, the Inter-American Development Bank (IDB) and the United Nations Development Program (UNDP). Projects funded by these three organizations seek to establish and promote policies that stimulate private sector development, improve macroeconomic policy formulation, and increase the capacity of ministries to fulfill their responsibilities. The Canadian International Development Agency (CIDA) provides short-term technical assistance to strengthen the management of small businesses, and the European Community (EC) is planning a project that will provide managerial and technical assistance to Guyanese businesses. The World Bank, IDB and UNDP programs complement USAID assistance, which focuses on accelerating policy implementation rather than formulating policy changes. Similarly, CIDA and the planned EC assistance target specific businesses while USAID assistance is focused on improving the management and capacities of the private sector organizations that represent the business community.

Constraints. The Government needs to persevere with its policy of establishing a market-led economy that benefits all segments of society. A sound and equitable policy and a legal, judicial and regulatory environment has to be maintained to ensure a favorable climate for investment and economic growth.

## **BUILDING DEMOCRACY (\$2,451,000).**

### **SO 2. Strengthened democratic and legal institutions and processes (\$2,451,0000).**

After more than 25 years of authoritarian rule in Guyana, free and fair elections in 1992 brought to power a democratically elected Government pledged to making the political system open and responsive to the needs of the people. USAID is assisting this transition to democracy that will give the Guyanese people a greater role in determining their own future.

Activities. Two activities contribute to achieving this objective: justice improvement and democracy strengthening programs. USAID will help to improve the effectiveness and efficiency of the Guyanese justice system by providing support to help the system restore its infrastructure and services to an acceptable, sustainable level and to assist with the introduction of more effective and more efficient court administration and management systems. In its efforts to strengthen democracy in Guyana, USAID will promote a pluralistic society and a responsive, open government. Through activities with Parliament, regional and local government, and civil society, USAID aims to improve the working of the democratic system at all levels and increasing popular participation in government. Specific attention is to be given to activities to improve race relations and reduce ethnic tensions between Afro-Guyanese and Indo-Guyanese, and provide opportunities for increased participation of Amerindians in all levels of government.

Related Activities. The success of Guyana's economic reforms will play a large role in determining the development of democracy. A growing economy that raises living standards for all Guyanese is one of the best ways of ensuring that democracy firmly establishes itself throughout the country.

Indicators. The indicators for measuring progress toward achieving this objective are: (1) greater participation by civil society, (2) better perception of the legal system, and (3) improved functioning of constitutional structures.

Feasibility and Cost-Effectiveness. The GOG is very conscious of its lack of experience with democracy and is anxious to have donor assistance to improve its understanding and practice of democratic principles. By moving on two fronts--law and democracy--USAID seeks to strengthen the legal underpinnings of society, while at the same time improving the overall functioning of democratic government. A key set of tasks in the justice area has been clearly defined and is achievable. The democracy activity has been designed for maximum flexibility; it is able to respond quickly to the needs of Parliament, regional and local government, and civil society in a number of broadly defined areas. The return on this investment should be appreciable throughout Guyanese society. A great deal of time and money will be saved by having a more effective and efficient justice system. Strengthened democratic institutions and processes will help ensure the better functioning of open, responsive government and will serve to empower individuals and groups.

Progress in 1993-1994. While waiting for the bilateral projects to start, USAID provided significant electoral assistance to the Government. Two U.S. private voluntary organizations (PVOs), the International Foundation for Electoral Systems and the National Democratic Institute, furnished critical help to the GOG and a local NGO in preparing for municipal and local government elections. The voting, which brought democracy to grassroots-level institutions for the first time in decades, took place in an orderly fashion, underscoring the Government's commitment to the democratic process and the people's continued support for a freer, more open society. The GOG welcomed USAID's arranging training for newly elected regional and local officials. Under a regional justice improvement project, law library needs were assessed and police prosecutors trained, while preparations were made for refurbishing eight magistrate courts. In addition, round tables were organized to engage a broad spectrum of Guyanese society in discussions on key public issues.



Donor Coordination. The activity most directly related to this strategic objective is the UNDP's planned municipal development program, which will include training and technical assistance for city functionaries, and possibly assistance to the elections commission. The World Bank anticipates developing a governance program and plans to use USAID studies and analyses in its design. Indirectly related activities include the community development programs funded by CIDA, UNDP and the EC. Also lending support to the achievement of this objective are the economic development programs of donors such as the World Bank, IDB, UNDP and the Overseas Development Authority (British foreign assistance agency) that focus on the regulatory environment, public administration and policy formulation. USAID chairs a donor sectoral and technical group on governance that meets at least quarterly.

Constraints. Democracy is new to Guyana and still somewhat fragile. The Government and opposition parties need to continue to abide by the rules of the democratic process. Low salary levels make it difficult to attract and retain qualified personnel within the justice system. Greater job satisfaction and better remuneration will be needed to ensure that key positions are filled.

**Other Donor Resource Flows.**

The United States provides about 6% of total donor assistance to Guyana. The other major donors are the IDB, the World Bank, Canada, the European Economic Community and Great Britain.

**GUYANA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Expand Economic Opportunities	2,200,000				2,200,000
2. Strengthen Democracy and Legal Institutions				2,451,000	2,451,000
<b>Total</b>	<b>2,200,000</b>			<b>2,451,000</b>	<b>4,651,000</b>

USAID Mission Director: Mosina H. Jordan

## HAITI

FY 1996 Economic Support Funds Request: .....\$ 90,270,000  
FY 1996 P.L. 480 Title II Request: .....\$ 15,715,000  
FY 1996 P.L. 480 Title III Request: .....\$ 10,000,000

During the three years that followed the September 1991 coup d'etat, successive military-backed regimes exerted a heavy toll on Haitian lives and the economy. These problems created burgeoning and costly demands on U.S. resources in order to cope with a sizeable Haitian refugee influx, carry out interdiction measures, and to bolster the enforcement of United Nations (UN) and Organization of American States (OAS) sanctions designed to drive the military regime from power and restore democracy to the beleaguered nation. The peaceful September 1994 deployment of the U.S.-led Multinational Force (MNF) in Haiti removed the de facto authorities from power and provided the initial enabling environment necessary to restore democracy in Haiti. The MNF has been substantially reduced and will soon transition to the United Nations Mission in Haiti (UNMIH) under U.S. command, to ensure continued security. The restored constitutional government is beginning to address the root causes of Haiti's chronic social and economic problems and is improving prospects for upcoming elections, social reconciliation, stability and economic recovery. The United States has a strong interest in seeing this process through in order to lessen the threat of renewed outmigrations and a concomitant burden on target countries (including the United States), and to permit Haiti and its neighbors to reorient their mutual efforts toward development, trade and regional security.

### The Development Challenge

With an estimated per capita income of \$225, Haiti is the poorest country in the Western Hemisphere. It has the worst health conditions (infant mortality rate of 101 per 1,000 live births, life expectancy of 54 years) and the lowest literacy rate (20%) in the region, and is one of the two most food-insecure countries in the world, according to the Food and Agriculture Organization (FAO). Population growth remains high (1.9%) and ever-increasing pressures on Haiti's overused land have led to alarming deforestation. Without job opportunities in urban areas, poverty continues to worsen. Conditions greatly deteriorated during the past three years of military government. Corruption and fiscal and economic mismanagement by the de facto authorities, exacerbated by international trade sanctions, plunged the economy into a tailspin, with a cumulative drop of more than 15% in real Gross Domestic Product (almost 20% per capita) in FYs 1992 and 1993, an estimated further decline in GDP of at least 15% in FY 1994, and an inflation rate estimated at 45% in FY 1993 and in excess of 60% in FY 1994. The human rights situation also greatly worsened and increasing numbers of Haitians, more than 20,000 people, took to the seas to escape political persecution and economic despair. These somber statistics underscore the urgent need to establish a durable democracy and political stability in Haiti.

A promising start has been made by Haiti's constitutional government. An electoral commission has been formed, and an interim police force is being trained. Haiti's arrears with the international financial institutions have been cleared, and the government has submitted a budget to the parliament, along with draft legislation aimed at economic reforms. When circumstances changed in mid-September, the United States immediately became the first donor to provide substantial support to the restored democratic government, signing grants for balance-of-payments support and electoral assistance. These actions provided a tangible and timely demonstration of the strong U.S. commitment to assisting Haiti's transition to democracy and economic recovery.

## **Strategic Objectives (SOs):**

USAID is pursuing the following three strategic objectives in Haiti.

### **BUILDING DEMOCRACY (\$19,260,000)**

SO1. Strengthen public and private democratic institutions participating in an emerging civil society (\$22,606,000 in Economic Support Funds, of which \$18,760,000 is for Building Democracy, and \$3,846,000 is for Economic Growth)

The most serious barrier to Haiti's development and growth is the political instability that has plagued the country since independence in 1804. The only freely elected president in Haiti's history was overthrown in a 1991 military coup, seven months after his inauguration. Under a succession of recent military-backed *de facto* regimes, public institutions have become more corrupt, inefficient and unresponsive to the public's needs. Provision of services has virtually stopped, and other public functions, such as policy development and providing a regulatory framework, have collapsed. Private organizations engaged in civic activities are weak and have been subject to persistent harassment and persecution. Strong democratic institutions are needed to assist Haiti's citizens and legitimate government to lay the foundation for rule of law and to promote stability and economic development.

Activities. Activities in support of democracy and governance are varied but integrated. Demobilized soldiers are being provided with vocational training to be followed by assistance with job placement. An interim police force, including 3,400 vetted ex-military personnel, has received short-term training and is providing security with guidance from the international police monitors. A portion of the interim police force will gradually be replaced by higher qualified new recruits upon their completion of professional training at the new police academy, under the USAID-funded International Criminal Investigative Training Assistance Program. USAID's efforts will continue to support the government's plans to transform the justice sector through provision of basic office equipment and materials, legal reference libraries, training and technical assistance with court administration and public awareness campaigns, and by increasing access to justice through legal services to the poor. Building on elections supported in FY 1995, the legislature, local governments, civil society, and political parties also are receiving assistance to develop the checks and balances necessary to a democratic system. Public sector efficiency, reform, policy formulation and accountability are being addressed by USAID's Policy and Administrative Reform Project, which supports the government's initiatives in the areas of civil service reform, decentralization, divestiture of public enterprises and fiscal responsibility.

Related Activities. Strengthening of the policy formulation and administrative capacities of the government is an integral component of USAID bilateral activities in agriculture, health, the environment and education. The institutions involved are receiving technical assistance and training in those areas in order to make good use of the support received for the projects' sectoral activities.

Indicators. Given the devastation caused by *de facto* misrule, USAID has established preliminary indicators for this objective that will be refined over time as Haiti emerges from crisis to recovery. These indicators are (1) the establishment of an effective judicial system, reinforcing the rule of law; (2) reformed economic policies and public administration; and (3) increased public and private sector capacity to effectively promote social reconciliation and civic participation.

Feasibility and Cost-effectiveness. Now that the cycle of repressive, military-backed rule has been broken, Haiti needs functioning, accountable public sector institutions to reestablish the rule of law and provide essential services. Such institutions do not currently exist: substantial external assistance must be provided quickly and on a sustained basis to bolster the constitutional government's efforts to reform public administration and economic policy and to deliver services, enabling it to establish credibility and gain public support for democratic governance. Strengthened private sector institutions are also required to protect citizens' rights and legitimate interests, to monitor government performance, and to support a transition to a civil society. Both types of institutions are needed to

begin the process of social reconciliation, without which any progress will be short-lived. Haiti's citizens cannot prosper without a stable political climate to encourage investment and a social environment free from fear and conducive to development.

Progress in 1993-1994. The peaceful arrival of the Multinational Force in September 1994 totally reversed the political, social and economic environment in Haiti, ending the climate of repression and human rights abuses, which had prevented citizens and all forms of organizations from operating freely. Even during the darkest days of the de facto regime, USAID's democratic initiatives included small grants for legal assistance to the poor, and support for civic education, human rights and prison monitoring. Limited funding helped to maintain four democratic labor unions in operation. A new human rights fund furnished medical assistance, counselling, family assistance and other services to victims of politically motivated violence, persecution and other human rights abuses.

Donor Coordination. Canada is planning to provide \$5 million for police training, and Germany will provide funding to strengthen nongovernmental organizations (NGOs).

Constraints. The pent-up anger resulting from years of oppression will have to be dealt with quickly and effectively through social reconciliation and conflict management to avoid potential attempts at private retribution. In addition, the public has demonstrated unrealistically high expectations for changes that directly benefit their lives, particularly economically, and delays in initiating timely, substantive reforms could jeopardize the new government's effectiveness and credibility. Of particular importance in FY 1995 will be the government's conduct of elections for parliamentary and local government seats and the presidency.

This objective addresses not only democracy goals, but also, economic growth, through the withdrawal of the government from commercial activities (commodity imports and public enterprises) that will be handled by the private sector.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$57,410,000)**

SO2. Promote private sector-led sustainable economic growth (\$26,000,000 in Economic Support Funds, of which \$16,060,000 is for Economic Growth, \$7,900,000 is for Protecting the Environment, \$2,040,000 is for Stabilizing Population Growth and \$10,000,000 in P.L. 480 Title III.)

The democratic transition cannot succeed without notable improvement in the economy and access to opportunities for Haiti's poor citizens, including those in rural areas. Unless there are tangible benefits now, the nascent democracy will have little significance for or support from the largely illiterate population. Small farmers must be assisted to improve Haiti's food security through increased agricultural production and a transition of farming methods to environmentally sustainable practices. The informal sector and microenterprise require assistance if the benefits of post-resolution growth are to be shared. Given the damage to productive infrastructure and the formal private sector, assistance is needed to encourage investment and permanent job creation.

Activities. The arrears-clearing program, which culminated in December 1994 with substantial support from USAID (\$24.8 million), removed the last barrier to significant flows of assistance from the international financial institutions, which will fund large projects in job creation, agriculture, infrastructure and other productive activities. Balance-of-payments support is providing foreign exchange for the purchase of petroleum products and external debt-service payments, and for general budget support for the government. New activities are underway to support the informal sector, and to assist the Tripartite Commission (consisting of government, labor and business) and the Presidential Commission (consisting of business and government) to support reforms that will reduce the government's direct involvement and benefit both business and labor. USAID projects continue to assist small farmers and microentrepreneurs. Support for the development of a national environmental

action plan is underway and a major environmental initiative, based on that plan, will be launched in FY 1996.

Related Activities. Haiti's private sector has faced inappropriate competition from the public sector in economic and commercial activities. USAID supports the government's efforts to reorient itself away from these activities through the Agency's Policy and Administrative Reform Project and through policy dialogue conducted under the Emergency Balance of Payments Support program. Simultaneously to the transfer of these opportunities to the private sector, government revenue-mobilization activities will be reinvigorated to produce increased resources to meet the government's responsibilities.

Indicators. USAID indicators for measuring progress toward achieving this objective are: (1) to increase formal private sector employment from 60,000 in 1994 to 150,000 jobs in FY 1996; and, (2) to increase agricultural production from 822 metric tons (MT) of corn equivalent in FY 1993 to 949 MT in FY 1996 .

Feasibility and Cost-effectiveness. As recently as 1991, Haiti's assembly sector employed some 35,000 people. Under stable conditions, Haiti's relatively low wages and high productivity could once again attract investment and jobs, thus decreasing the need for interventions such as direct feeding programs. If Haiti is to return to the path of sustainable economic growth in the aftermath of the political crisis and economic contraction of the past three years, USAID must help to transform and modernize the industrial and service sectors, to assist the most economically vulnerable population to improve and expand activities in the informal sector and microenterprise, and to increase productivity and outputs in the agricultural sector, which still employed two-thirds of the Haitian labor force and produced 35% of GDP in 1991. The government's move to privatize inefficient parastatals will permit a more appropriate focus on its primary responsibilities for policy formulation, regulation and quality control. The transfer of those services to the more efficient private sector will improve the investment climate and benefit consumers.

Progress in 1993-1994. The virtual isolation of the Haitian economy in the wake of the tightened U.N. sanctions (total embargo except for imports of basic foodstuffs and medicines), compounded by the de facto regime's corruption and economic mismanagement, rendered the economic crisis even more acute. More than 100,000 jobs have been lost in the modern, formal economy since September 1991. USAID's assistance strategy for this objective in 1993 and 1994 nonetheless was able to help mitigate the effects of economic degradation on poor farmers and on microentrepreneurs.

Activities in agriculture protected small farmers' incomes by providing extension services while promoting sustainable, environmentally sound, land use practices nationwide, designed to stem environmental degradation and to protect the country's most important watershed. Grassroots democratic farmers' associations provided 20,000 small farmers with the means to produce a higher quality coffee product and to receive a higher price for that product. This helped to empower the associations to break the cycle of exploitation established in the Haitian coffee industry which is oligopsonistic. Loans to microentrepreneurs, particularly in the provinces, helped to mitigate the effects of economic decline by keeping small businesses going until the economic crisis ends.

Donor Coordination. The World Bank, the InterAmerican Development Bank (IDB), the European Union, and Canada have large programs comprising undisbursed funds and new projects which contribute to the achievement of this strategic objective. The World Bank will provide some \$140 million to support balance of payments and activities in power generation, transport, industrial recovery, and roads. The IDB is planning to provide over \$200 million in support for balance of payments, irrigation, drainage, jobs, roads and porcine development. The European Union will provide \$150 million for infrastructure development, agricultural production and environmental protection. Canada is providing \$10 million for balance-of-payments support and agricultural assistance.

**Constraints.** Haiti's deteriorated services and productive infrastructure are major constraints to economic revival. This includes a chronic lack of electricity, poor telecommunications, inadequate port facilities, badly dilapidated roads and bridges, and irrigation systems. The government will have to move quickly to privatize the inefficient parastatals that are responsible for these services to improve the situation and staunch an important drain on government finances. Donor assistance will have to be coordinated carefully to prevent overlap and saturation of the government and NGOs' capacity to manage and monitor projects. Recurrence of political instability and violence could have a very negative affect on Haiti's economy and the private sector's willingness to invest in any significant way.

This strategic objective also addresses the environment and population. Environmental activities are protect the country's only remaining watershed, e.g. through tree planting, the use of hedgerows and contour planting. Population funds are used to incorporate a higher proportion of women into agricultural, environmental and microenterprise activities.

Economic growth goals are also supported by the first and third objectives, as described in this narrative.

### **STABILIZING POPULATION GROWTH (\$15,000,000)**

SO3. Protect and develop the human resource base (\$41,664,000 in Economic Support Funds, of which \$12,960,000 is for Stabilizing Population Growth, \$27,504,000 is for Economic Growth, \$700,000 is for Protecting the Environment and \$500,000 is for Building Democracy.)

As noted above for SO2, all of the SOs contain some elements of certain other SOs as this program was limited to humanitarian assistance for most of the past three years.

Given Haiti's abysmally low social and economic development, it will take many years for the majority of the impoverished Haitian population to significantly improve the quality of their lives, even after the consolidation of democracy and the onset of economic growth. Thus, while the framework for development is being put into place and donor assistance begins to reorient towards the productive sectors, there will still be a need in 1996 to protect and develop Haiti's most vulnerable by providing a reduced level of food assistance and short-term jobs and basic education for a large number of beneficiaries.

**Activities.** USAID seeks to alleviate the suffering of millions of Haiti's children and other vulnerable groups through direct feeding programs and health service delivery, including child survival, AIDS prevention, drug abuse awareness programs, access to primary care, and family planning services provided through NGOs for about 2.2 million disadvantaged Haitians. In addition, short-term retraining of Haitian public sector health workers is aimed at increasing health service delivery capacity. Critical drugs, supplies and medical equipment also are being provided to the government through international organizations to bring immediate benefit to the population not currently covered by NGOs. Short-term jobs allow the able-bodied unemployed to temporarily meet their families' basic needs, offering a dignified alternative to feeding programs and improvement of the productive infrastructure in their communities. A major basic education initiative seeks to implement a national education plan developed by consensus among the public and private education sectors. A separate project provides development training and technical assistance to build institutional capacity.

**Indicators.** The indicators for measuring progress towards achievement of this objective are: (1) to target Haiti's most vulnerable population groups for direct feeding programs for 700,000 beneficiaries in 1996; (2) to increase utilization of preventive health services for child survival in USAID-targeted areas as follows: measles immunizations 47.6% (FY 1992) to 65%; oral rehydration therapy (ORT) use 38.2% (FY 1992) to 50%; (3) to increase contraceptive prevalence rates in USAID-targeted areas from 10.5% in FY 1989 to 20% in FY 1996; (4) ratification of Haiti's national education plan by the Parliament; and (5) an increase in government education expenditures from 17.5% of the national budget in FY 1994 up to 22% in FY 1995.

Feasibility and Cost-effectiveness. This strategic objective recognizes that economic growth and political stability require a healthy, literate population to become sustainable. It has been well-documented that education, particularly of girls, is a determining factor in achieving improvements in health and nutrition, use of family planning and in the economic prospects of a family. Until the private sector revives and the public sector improves its ability to deliver services, continued external support will be needed for these sectors.

Progress in 1993-1994. In spite of the hardships imposed by tightened embargo conditions in 1993 and 1994, the expanded humanitarian assistance program succeeded in providing a much-needed safety net during this time, thereby protecting over one-third of the population from the most serious effects of economic decline. USAID's feeding program expanded to serve over 1,000,000 beneficiaries, providing one meal per day. USAID also supported the initiation of a process to implement a nation-wide reform of the educational system. Short-term jobs provided income to the unemployed (108,000 to date) and improved productive infrastructure throughout the country. Activities in AIDS prevention, family planning and child survival were surprisingly successful given the circumstances, exceeding planned achievements in USAID-targeted areas. The fuel embargo made transportation difficult and expensive, and the economic crisis affected many poor Haitians' ability to pay even nominal fees for services, thereby leading some to forego treatment entirely or wait longer to seek help. With substantial funding from USAID, however, the UN and OAS humanitarian fuel program provided low-cost fuel to some 300 organizations engaged in humanitarian relief, permitting critical activities to continue without interruption. USAID also funded humanitarian relief flights after all airline service to Haiti was halted, thereby allowing essential medicine and supplies to be delivered.

Donor Coordination. USAID has played a leading role in the coordination of all donors' food assistance and is a key participant in the health committee led by the PanAmerican Health Organization. The World Bank will provide \$41 million for health and job-creation activities. The European Union is planning \$14.5 million for food supplements, medical care, sanitation and hygiene. The IDB, Canada and Germany will support feeding, water, medical supplies and job creation, for a total of approximately \$20 million.

Constraints. The public health sector collapsed following the 1991 coup, and donors are still ensuring the viability of a cold chain for vaccines and essential medicines throughout the country. NGOs are the predominant health service providers in Haiti. A plan developed by the legitimate authorities offers an alternative that decentralizes the system in favor of community-based, integrated health systems, with a partnership between the public and private sectors. The institutional weakness of public health facilities and the ministry are daunting constraints to its implementation, however.

In a similar vein, the constitutional authorities have already done a great deal of advance planning to develop the policy environment for national education reform, involving a collaborative relationship between the public and private education sectors. Close coordination among donors will be required to keep the process on track and to build a national consensus in support of major reforms.

#### **PROVIDING HUMANITARIAN ASSISTANCE (\$15,715,000 in P.L. 480 Title II.)**

The feeding program will be mainly supported by monetized P.L. 480 Title II resources, which are being used, along with P.L. 480 Title III resources and USAID's agriculture projects, to address Haiti's serious food security problems. Those problems must be resolved to reduce, and ultimately, eliminate Haiti's reliance on donor food assistance. Nutrition is being addressed by USAID's integrated health project since activities such as child survival cannot be successful if the beneficiaries are malnourished.

**Other Donor Resource Flows.**

In FY 1994, the United States provided about 70% of all donor assistance in Haiti. Other major donors included the European Union, the United Nations agencies, Canada and France. In the Consultative Group Conference (CG) at the end of January, 13 bilateral donors, the EC and other European, Inter-American and international financial and technical assistance institutions pledged \$1.2 billion to assist Haiti with its Emergency Economic Recovery Program. This CG produced the highest ratio of burden sharing by non-US government sources than any of the recent post-crisis situations - over 80% from non-US sources and under 20% (\$200 million) from the U.S.

<b>HAITI FY 1996 PROGRAM SUMMARY</b>						
	<b>Encouraging Economic Growth</b>	<b>Stabilizing Population Growth</b>	<b>Protecting the Environment</b>	<b>Building Democracy</b>	<b>Providing Human- itarian Assist</b>	<b>Total</b>
<b>STRATEGIC OBJECTIVES</b>						
1. More Effective and Enduring Democratic Institutions	3,846,000			18,760,00		22,606,000
2. Sustainable Private Sector- Led, Equitable Economic Growth	16,060,000	2,040,000	7,900,000			26,000,000
3. Protect and Strengthen the Human Resource Base	27,504,000	12,960,000	700,000	500,000		41,664,000
PL480 Title II					15,715,000	15,715,000
PL480 Title III	10,000,000					10,000,000
<b>Total</b>	<b>57,410,000</b>	<b>15,000,000</b>	<b>8,600,000</b>	<b>19,260,000</b>	<b>15,715,000</b>	<b>115,985,000</b>

USAID Mission Director: Larry Crandall



## HONDURAS

FY 1996 Development Assistance Fund Request: ..... \$ 29,974,000  
FY 1996 P.L. 480 Title II Request: ..... \$ 4,410,000

The fourth poorest country in this hemisphere, Honduras has a long history of exceptional support for U.S. foreign policy interests, including recent help on Cuban refugees, Haiti, Iraq and Kuwait. The support appears likely to continue as this evolving democracy takes its place in the United Nations Security Council. Honduras, by opening its economy and adopting market-oriented policies, has increased trade with the United States. Proposed U.S. assistance, focused on increasing the productivity and incomes of poorer Hondurans and on replacing the rule of political and financial influence with the rule of law, will contribute to U.S. political and economic interests. Programs supporting family planning and reduced natural resources exploitation will contribute to U.S. global objectives.

### The Development Challenge.

After extensive reforms, Honduras achieved remarkable growth rates of 5.6% in 1992 and 6.1% in election year 1993. However, much of the 1993 growth derived from fiscal excesses of the outgoing administration, leaving the new government out of compliance with the International Monetary Fund (IMF) and an economy poised for bankruptcy. A severe drought in 1994 turned an existing energy problem and precarious agricultural situation into outright crises with energy rationing 14 hours per day and food shortages among subsistence farm families. Economic growth plummeted in 1994, reducing fiscal revenues while energy costs soared.

With a per capita gross domestic product (GDP) of \$634, 70% of Hondurans live below the poverty line. Agriculture, the most important sector in the economy, generates two-thirds of national employment. Policy reforms of the early 1990s resulted not only in economic growth, but in a 15% income increase for agricultural households, the poorest in the country. However, a convergence of bad weather and backsliding on policy reforms reduced the dynamism of the sector in 1993 and 1994.

One of the most geographically diverse countries in Central America, natural resource exploitation has cost Honduras half of its four million hectares of broadleaf forest and 40% of the volume of commercial pine timber. A planned system of forest reserves and protected areas is not yet functional. Inadequate watershed management endangers water supplies, while poor municipal sewerage and refuse collection contaminate remaining sources.

Social progress has been remarkably good, given the nation's poverty. But infant mortality and fertility rates of 46 per 1,000 live births and 5.1, respectively, are still too high; use of modern family planning methods is still not widespread; and Honduras has the highest reported levels of human immune deficiency virus and acquired immune deficiency syndrome (HIV/AIDS) in Central America. Some 30% of primary-school students will not complete the sixth grade. And, while the country has institutionalized elections, Honduras is not a mature democracy. Central problems are corruption, a weak judicial system, and lack of a truly representational Congress.

### Strategic Objectives (SOs).

USAID is pursuing four strategic objectives in Honduras, which contribute to the following agency-wide goals.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$15,685,000).**

### **SO 1. Enhanced economic participation and increased incomes of the poor (\$9,380,000 DAF).**

A robust economy is necessary, but not sufficient, to ensure that lower-income groups will benefit from economic growth or enjoy equal access to economic opportunities. Access to land, credit, technology, and basic education are essential to break the poverty cycle and to produce sustained economic progress in Honduras.

Activities. Programs in support of this objective are improving access by low-income Hondurans to resources that increase their productivity and income. The food for development and policy analysis and implementation programs focus on improving agricultural price, trade, and land-tenure policies critical to increased incomes and investment. USAID, through its small farmer agricultural development, export development, and the small business programs, is working with private voluntary and nongovernmental organizations (PVOs and NGOs) to strengthen credit unions, agricultural cooperatives, farmer-owned enterprises, and small and microenterprises. The FY 1995 basic education and skills training project is supporting Ministry of Education alternative basic education programs and a PVO vocational training program, both of which target low-income, out-of-school youth and adults.

Related Activities. Environmental activities aimed at protecting forest and soil resources contribute to sustainable economic growth, especially in the agriculture sector. One program directed at hillside farms is helping micro-farmers increase crop yields and incomes.

Indicators. The key indicator of progress in achieving this objective is reduction in the percentage of the population living below the poverty line. Other progress measures include: increased agricultural investment; increased number of loans to small and microenterprises and to smallholders in the agriculture sector; incremental employment attributable to selected USAID programs; increased numbers of people completing different levels of basic education; and a higher percentage of USAID-supported vocational-training graduates employed.

Feasibility and Cost-effectiveness. The Honduran government's (GOH) willingness to re-establish and maintain a policy framework conducive to investment and economic growth, especially agricultural trade and pricing policies, is critical. Coordinated insistence by USAID and multilateral donors that the GOH avoid price controls and eliminate non-tariff trade barriers will ensure success on this question. Beyond this, the GOH must improve access to productive resources by developing transparent and effective rural land and credit markets, implementing a massive land-titling effort, and improving the efficiency of public-sector organizations. Progress, especially in policy reforms, has not been consistent and must be monitored closely. But success in the effort implies reform of virtually the entire agriculture sector.

Progress in 1993-1994. Between 1991 and 1993, the percentage of the population living below the poverty line dropped 15% according to the International Bank for Reconstruction and Development (IBRD). Figures for 1994 are not yet available, but it is likely that both urban and rural incomes declined, given the sharply contracting economy. Agricultural and overall economic growth declined in 1994 to estimated rates of -2.9% and -1.4%, respectively. The declines were due to the economic problems inherited by the current Government, weather, external shocks, labor unrest, trade restrictions, and initial backsliding on agricultural pricing and trade policies whose previous liberalization had helped increase agricultural household incomes between 1989 and 1993. In 1994, USAID-supported programs provided 45,900 loans to micro and small enterprises and small holders in the agricultural sector, more than 70% of which went to women. The assistance also generated 14,000 additional jobs in 1994. There has been a 56% increase in primary education graduates since 1986, of whom 51% are female; and standardized scores for grades 1-3 have increased by an average of more than 40%. Of the more than 25,000 graduates (35% women) from USAID-supported vocational

training centers, over 90% have been employed and their incomes have increased by some \$1,000 annually.

Donor Coordination. USAID maintains especially close management- and technical-level consultations and coordination with the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), and the World Bank (IBRD) across all sectors. There is close bilateral coordination, especially at the technical level. In the joint USAID, IBRD, and IDB effort in support of agriculture policy reform, USAID programs provide the technical analysis for policy conditionality and local-currency resources for policy implementation. In education, the IDB and Germany will pick up activities in formal primary education while USAID moves into alternative basic education.

Constraints. The greatest constraint to progress under this strategic objective is likely to be macroeconomic destabilization, with its fiscal problems exacerbated by the 1994 electricity crisis and drought. Another is pressure from factions within the GOH that support statist, populist policies.

**SO 3. Improved family health (\$17,258,000 of which \$12,848,000 is DAF and \$4,410,000 is P.L.480 Title II).**

Honduras is a poor country that is trying to address the basic health needs of a population growing at 2.7% per year. Continued U.S. support is needed as it attempts to continue progress while confronting the worst acquired immune deficiency syndrome (AIDS) problem in Central America.

Activities. USAID's health sector program with the Ministry of Health is improving the health status of children through a variety of interventions, including vaccination programs, oral rehydration therapy, maternal health care, and development of rural water and sanitation systems. The program is also attempting to slow the rate of new HIV infections through the promotion of preventive practices, including condom use. The Title II programs implemented through CARE will focus on improving nutrition and food security in the country.

Related Activities. Family planning programs that are part of this strategic objectives have been a significant factor in lowering infant mortality rates.

Indicators. Reduced infant mortality rates, malnutrition among children 12-23 months of age, and the maternal mortality rates are the key child-survival progress measures. AIDS-prevention progress will be measured by the rates of HIV infection in two limited but high-risk groups: commercial sex workers and women attending a prenatal clinic in San Pedro Sula, the country's commercial capital. Key population growth indicators include reduced fertility rates and increased contraceptive prevalence for women 15-44 years of age.

Feasibility and Cost-effectiveness. Achievement of this strategic objective with an increasing population and decreasing budget is feasible because the GOH has committed itself to a series of cost-saving and efficiency measures in primary health care and in AIDS control and prevention. Past progress on population growth, which has relied on both the GOH and PVOs, supports the feasibility of this outcome. Another positive factor is the Catholic Church's restraint in expressing open opposition to condom use in light of the AIDS problem.

Progress in 1993-1994. Infant mortality declined from 85 in 1979 to 50 in 1989, and is currently estimated at 46. With vaccination rates for children under one year exceeding 94%, Honduras has the best record in Central America. Rural water and sanitation programs have helped shift diarrheal diseases from the first to the third cause of death among infants. The percentage of children aged 12-23 months who are seriously malnourished is estimated to have declined from 20.5% in 1991 to 18% in 1994. Although a strategic USAID AIDS-prevention program has just begun, condom distribution increased by 62% in 1992 and continued to increase in 1993-1994. The total fertility rate in Honduras for 1991 was 5.1. The 1994 rate is estimated at 4.8. Total contraceptive prevalence rate (CPR) in

women stood at 47% in 1991 and is estimated at 49% for 1994. The modern methods CPR is estimated at 38%.

Donor Coordination. USAID is collaborating with the IDB and the World Bank in the water and sanitation sector, including a reform of the national water authority and work with municipalities. Each donor is also supporting social safety-net programs through contributions to the Honduran Fund for Social Investment. USAID and the IDB also have coordinated on AIDS control and prevention assistance and interventions.

Constraints. The principal constraints to achieving health objectives are (1) the lack of an official government policy on reproductive health and (2) the lack of a strong supervisory system that permeates the central Ministry through the regions to the community level. Family planning progress is further constrained by negative publicity and unfounded statements of pro-life opposition groups.

The family health strategic objective (SO3) discussed above will address not only economic growth but also population growth through the following activities. Family planning has been a major factor in reducing Honduran infant mortality rates and contributes to Agency global population goals. USAID's family planning efforts under the health sector program with the Ministry of Health and the private sector population program with the Honduran Family Planning Association (ASHONPLAFA) are expanding coverage and quality of services with a view toward increased use of modern family planning methods. Use of the increased numbers of condoms distributed for AIDS prevention will also help increase contraception.

## **PROTECTING THE ENVIRONMENT (\$5,404,000).**

### **SO 2. Effective stewardship of key natural resources for sustainable economic growth (\$5,404,000).**

The exploitation of Honduras' forests and soils without regard to sustainability has already begun to affect the lives of Hondurans, as dramatically illustrated by the country's electricity crisis. Continued and sustainable growth in agricultural production, the survival of the country's wood industry, and water supplies depend on stemming this degradation. Moreover, Honduras' forest resources and biodiversity are important to the world environmental situation.

Activities. USAID activities are focusing on stemming destruction of forest and soil resources and improving management of existing protected areas. The policy analyses project is supporting improved environmental policies. The forestry development project is demonstrating sound forest management in two large model areas, encouraging sound forest-management policies and practices in pine forests throughout the country, and supporting development of Honduras' system of protected areas. The land use and productivity enhancement project promotes among hillside farm families the use of cropping systems that are simultaneously more productive and protective of the natural resources on which future production depends. The Honduran Environmental Protection Fund programs is building a local PVO and NGO network to improve management of protected areas.

Related Activities. Other USAID activities that contribute to this strategic objective and to alleviating broader environmental problems include: family planning programs; health programs that provide water and sanitation and protect microwatersheds for village water supplies; and assistance to municipalities for adequate sewerage treatment and solid waste management and for protecting municipal watersheds.

Indicators. Key indicators measuring progress in achieving this objective include: the increased area nationwide of pine forest under effective management, the number of hillside households practicing environmentally sound cultivation practices, reduction of soil erosion on treated hillside farms, and the increased number of forest reserves and protected areas under long-term management plans.

Feasibility and Cost-effectiveness. A strongly unified multilateral and bilateral position on the issue of redefining the role of the GOH's forestry agency and changing its leadership and personnel has greatly improved prospects for achieving this objective. CARE's 1994 joining with the GOH in the effort to introduce environmentally sound agricultural practices on hillside farms will further amplify successes achieved to date, and its use of "contact farmers" as extension agents will contribute to the cost-effectiveness of the effort.

Progress in 1993-1994. By 1993, Honduras had set the legal framework for halting natural resources degradation. The area of pine forest under effective management plans, which stood at zero in 1989 increased to 119,000 hectares by 1994. The number of poor hillside-farm households using environmentally sound cultivation practices increased from 16,000 in 1993 to just short of 20,000 in 1994, contributing to an estimated cumulative 1.15 million-ton decrease in soil-erosion losses. The number of forest reserves and protected areas under long-term management plans increased from two in 1993 to the targeted six for 1994.

Donor Coordination. Close technical cooperation between USAID, the multilateral banks, Canada, and Germany, especially in forestry, is moving the GOH to a major redefinition of its role in the sector.

Constraints. With the crises facing the GOH, the environment is not a high priority, and progress is slowed for lack of financial resources. Concern for the environment is a relatively new concept in Honduras; public awareness of the issue is only beginning to become widespread and legal mechanisms for redressing abuses are weak.

#### **BUILDING DEMOCRACY (\$2,342,000).**

##### **SO 4. More responsive democratic processes with greater citizen participation (\$2,342,000).**

To mature as a democracy, Honduras needs ethics in government, a justice system that functions within the rule of law, and a government that responds and is accountable to its citizens. Citizens, meanwhile, need to develop a deeper sense of the values and benefits of citizen participation, and demand access to, and accountability from, their leaders and institutions.

Activities. The strengthening democratic institutions program is helping replace the rule of political and financial influence with the rule of law by supporting reform the Court and development of the new Public Ministry charged with prosecuting crimes. It is also fostering equal access and standing for the Honduran population in the justice system. The municipal development project is increasing citizen participation in local government decision-making and improving local governments' ability to respond to constituents. The Honduras peace scholarships program continues to provide Honduran leaders from a range of sectors the opportunity to learn first-hand about U.S. political and economic systems, culture and values.

Related Activities. Environmental policy improvements supported by USAID will strengthen municipalities' efforts to protect municipal watersheds. The basic education program will contribute to more enlightened citizen participation.

Indicators. Key progress indicators in measuring progress in achieving this objective include: the increased percentage of cases under investigation by the Public Ministry that are prosecuted and adjudicated; increased community attendance at town meetings, increased proportion of municipal budgets going to capital projects; and increased number of participants who have completed the "Experience America" program.

Feasibility and Cost-effectiveness. The Honduran President demonstrated dedication to a "moral revolution" aimed at corruption and the weak justice system has improved prospects for substantive progress in this area. The USAID-supported 1990 Municipal Law has already led to a restructuring in

the relationship between the central and municipal governments; and electoral reform, which in 1993 permitted the election of mayors separately from the national ticket, is a major step in breaking the political monopoly of the traditional parties and in increasing mayoral accountability. The effort in the justice and municipal sectors is cost-effective because USAID technical assistance and training are helping set the policy framework and providing the "how to," while the central and municipal governments are financing the services. USAID has increased the cost-effectiveness of the peace scholarships training by maximizing the number of participants through short-term training, which has a high multiplier effect.

Progress in 1993-1994. The late 1993, transfer of the public prosecutor and national police investigative responsibilities to a new Public Ministry made the functions independent of the court and the military, respectively. In 1994, of 312 court corruption complaints, 226 were investigated of which 31 were prosecuted. Whereas municipal town meetings were unheard of in 1990, average participation in these meetings climbed to 110 by 1992 and 140 by 1994. The proportion of municipal budgets going to capital projects in 1994 increased to 32.4% compared to 13.7% in 1992. In 1993 and 1994, 564 participants completed training, increasing the scholarships program's cumulative total to 2,556.

Donor Coordination. Through close coordination on the IDB's proposed \$7 million administration of justice sector loan, USAID and the IDB have agreed on a division of effort that will maximize impact. USAID, IDB, and Germany also coordinate in the municipal sector where the IDB has an \$8.5 million water-systems activity.

Constraints. Principal constraints are: (a) the resistance of the financially and politically powerful to change a justice system that is benefiting them, and (b) the reluctance among some elements of the central government who are unwilling to relinquish authority and resources to the local governments.

#### **Other Donor Resource Flows.**

In FY 1993, the United States was the major top five donor having provided 17% of the top five donor assistance to Honduras. Other major donors are the World Bank, InterAmerican Development Bank, Japan and Spain.

**HONDURAS  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Humanitarian Assistance	Total
<b>USAID Strategic Objective</b>						
<b>1. Enhanced Economic Participation</b>	9,380,000					9,380,000
<b>2. Effective Stewardship of Key Natural Resources</b>			5,404,000			5,404,000
<b>3. Improved Family Health</b>						
Dev. Assistance Funds	6,305,000	6,543,000				12,848,000
P.L. 480 Title II					4,410,000	4,410,000
<b>4. Democracy</b>				2,342,000		6,752,000
<b>Total</b>	15,685,000	6,543,000	5,404,000	2,342,000	4,410,000	34,384,000

USAID Mission Director: Marshall D. Brown

## JAMAICA

**FY 1996 Development Assistance Fund Request: . . . . . \$15,862,000**

Independent since 1962, Jamaica is a longstanding, multi-party democracy. The third largest island in the Caribbean, it has a population of 2.5 million and is located about 500 miles south of Miami. The United States has a strong interest in the economic health and political well-being of Jamaica based on geographic proximity and significant trade and investment relations--nearly two-thirds of Jamaica's imports are from the United States. A strong, stable Jamaican economy will protect existing United States investments and markets in Jamaica and provide opportunities for expanding the Jamaican market for United States goods and services. The United States interest in promoting a solid Jamaican economy and society also is based on shared regional security concerns--most recently demonstrated by Jamaica's cooperation in the processing of Haitian refugees and sending troops to Haiti as part of a regional peacekeeping and reconstruction effort, ties through immigration, and a common commitment to democracy. With more than one-third of the Jamaican population living in poverty, sustainable, broad-based growth is critical to improving the standard of living of the poor to a level that can ensure long-term social and economic stability and economic growth for Jamaica.

### **The Development Challenge.**

Structural adjustment of the Jamaican economy, begun in the early 1980s, has been a long, difficult process. On the positive side, the Government of Jamaica (GOJ) has implemented macro-economic policy reforms in recent years that have provided the basis for a market-oriented economy with emphasis on exports and investment. Tariff rates have been reduced, quantity restrictions eliminated, and price controls and food subsidies have been abandoned. These changes, together with the liberalization of the foreign exchange regime (in September 1991) and improved monetary and fiscal policies, promise to lead Jamaica toward becoming a fully open, market-driven economy, supported by democratic institutions. However, living conditions for the majority of Jamaicans continue to deteriorate. While economic growth has been positive since 1991 (at an average of 1 %), it remains negative or very low in per capita terms, given a population growth rate of 1.9 %. Additionally, the increase in actual numbers of poor people reflects an inequality in the distribution of economic growth. In view of these trends, Jamaica's challenge will be to ensure sustainable growth and participation by low-income groups in the growth process.

Tourism is Jamaica's major source of foreign exchange. Other principal foreign exchange earners (bauxite, sugar, and bananas) have suffered from world market declines. However, production and markets for nontraditional and domestic production have displayed a robust, upward trend and hold promise for the future. Jamaica's economic dependence on tourism, bauxite, and agriculture has adversely affected the country's natural resource base through deforestation, soil erosion, pollution, and dwindling marine resources. Although Jamaica's health statistics are relatively good, chronic diseases, AIDS, and other sexually transmitted diseases are significant problems. Of extreme concern is a continuing dramatic decline in the basic educational level of the Jamaican population, compromising the ability of the work force to build a modern growth-oriented economy. Although unemployment in Jamaica has decreased to 15%, from 25% in the early 1980s, most labor is absorbed by the informal sector where wages are extremely low. Jamaica's long-term development prospects are based on its ability to provide equitable growth, reduce poverty, earn foreign exchange and generate productive employment for a healthy citizenry.

### **Strategic Objectives (SO).**

USAID's overall program goal is to help Jamaica achieve broad-based, sustainable economic growth. To meet that goal, USAID has adopted a development program built on three strategic objectives: (1)



increased participation for equitable economic growth; (2) improved environmental quality and natural resource protection; and (3) healthy, smaller families.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$8,251,000).**

##### **SO 1. Increased participation for equitable economic growth (\$4,737,000).**

Jamaica's efforts to liberalize its economy and open its markets have laid the foundation for strong and vibrant growth. However, given Jamaica's heavy debt burden, coupled with its import dependence, special efforts to support foreign exchange earnings through an export and investment orientation will be required to complete the process. Broad participation of all segments of the society in a trade- and investment-led growth strategy can be facilitated by emphasizing employment creation and strengthening, as an important element of the strategy and as a way of minimizing negative social impacts of structural adjustment.

**Activities.** To achieve this strategic objective, USAID activities support broader, more efficient markets; improved export production; increased economic opportunities for low-income families; improved services for the tourism sector; and training for a modern economy. The range of activities include strengthening the Ministry of Finance's institutional capabilities in fiscal policy management; assisting with the privatization of major public holdings; promoting pro-competition policy, including the development of fair trade legislation and a fair trade commission; providing institutional strengthening assistance to nongovernmental organizations (NGOs), e.g., private lending institutions, that support microenterprise development; supporting an NGO-led urban renewal effort in the Inner Kingston area which aims to create jobs and improve the investment climate; helping to increase productivity and market development in key export sectors such as apparel, data entry, tourism and agricultural exports; improving infrastructure essential to tourism development; and increasing access for thousands of disadvantaged Jamaicans to employment, capital, education and training, infrastructure and appropriate technologies. A new activity is proposed which will build upon the highly successful Inner Kingston community development project. The Kingston Restoration Company, the NGO which implemented the Inner Kingston project, will assist impoverished urban communities to design and implement essential community-based services and facilities. The Kingston Restoration Company will provide technical assistance, financial management, planning and donor support coordination to establish community health, education, small enterprise and other activities on behalf of low-income communities.

**Indicators.** Program achievement toward this strategic objective is measured by the following performance indicators: (1) increased foreign exchange earnings in priority non-agricultural areas from \$1.02 billion in 1990 to \$2.18 billion in 1998; (2) increased foreign exchange earnings for selected agricultural export crops, from \$20,000,000 in 1990 to \$38,400,000 in 1997; and (3) increased employment in assisted areas, measured against a targeted increase from 104,000 jobs for males and 129,000 jobs for females in 1991 to 146,000 jobs for males and 192,000 for females in 1998. Output indicators that will be used to gauge program success include adoption of pro-competition legislation and establishment of a fair trading commission; the number of small and microenterprises assisted; the value of government enterprises privatized within the targeted timeframe; production levels of yam and smallholder coffee exports; the number of people receiving USAID-supported training for the productive sector; and the quantity of potable water supply available to the key tourism destination of Negril.

**Feasibility and Cost-effectiveness.** The realization of this objective depends on the government's ability to carry out its economic growth program successfully. Based on progress to date, USAID believes that the GOJ's program, if maintained on a consistent and fair basis, can successfully steer the economy through the transition from stabilization to sustainable growth and poverty reduction. USAID's project activities reinforce the GOJ's prospects for success. The authorized budget for the eight USAID projects under this strategic objective totals \$71.3 million over an 11 year period. It is

expected, based on actual results obtained to date, that foreign exchange earnings in both agricultural and non-agricultural areas will improve by \$1 billion over this time period.

**Progress in 1993-1994.** In the past year and a half, the GOJ's foreign exchange earnings increased by more than \$249 million in areas of USAID assistance. Yam exports grew by 37%, and there was a 21% increase in export tonnage through the U.S. Department of Agriculture (USDA) and USAID export-processing facilities. In the same time frame, the GOJ, with USAID assistance, enacted a Securities Act, Fair Competition Act and Employee Share Ownership Program legislation. Over 1,150 loans were made to microentrepreneurs valued at over \$1 million; over 1,000 new jobs were created in Inner Kingston; all 84 graduates of the University of the West Indies' MBA program gained employment; and 120 young people from Inner Kingston received educational scholarships.

**Donor Coordination.** USAID, the World Bank and the Inter-American Development Bank (IDB) activities have complementary activities in support of the GOJ's privatization program. Also, donor coordination has been strong between the Government of the Netherlands, the United Nations Development Program (UNDP), and USAID in efforts to develop the microenterprise sector. USAID and UNDP are co-financing technical assistance for a new division in the Ministry of Finance, the Fiscal Policy Management Unit, which provides institutional strengthening to improve the analysis, formulation, implementation and monitoring of fiscal policy. Under the North Coast development project, USAID and the Japanese Government are co-financing a major project to provide infrastructure in the country's leading economic growth area.

**Constraints.** Despite positive policy reforms, the private sector response has been mixed. High interest rates, high inflation, high taxes, excessive government regulation, and low worker productivity (in rank order) are still inhibiting business confidence and investment. A recent USAID-financed assessment concluded that the two fundamental causes of Jamaica's work force problems are lack of strategic vision among Jamaica's managers and an alarming decline in literacy, numeracy and the work ethic of the work force. USAID is also encouraging economic growth as well as stabilizing pop. growth, through its healthy, smaller families strategic objective, discussed below.

USAID also addresses Jamaica's economic growth objective through activities promoting healthier smaller families (\$3,030,000) and activities discussed under cross-cutting issues.

## **PROTECTING THE ENVIRONMENT (\$5,073,000).**

### **SO 2. Improved environmental protection and natural resource management (\$5,073,000).**

Jamaica is the most biologically diverse island in the Caribbean, with over 1,000 endemic species and a wide range of habitats. Its economy, from bauxite to tourism to agriculture, is critically dependent on its natural resource base. Unless Jamaicans make conscious and informed choices about pollution, resource management and biodiversity protection, environmental deterioration could vitally threaten all of these key sectors.

**Activities.** USAID's environmental program is targeted at conserving the resources upon which stable and sustainable long-term development depends. USAID's emphasis is to strengthen environmental management organizations in Jamaica, both public and private, to help develop a sustainable national park system, to improve soil management, and to upgrade infrastructure and urban services in key tourist areas. Specific USAID activities include establishing and making sustainable the nation's first two national parks; strengthening the network of environmental nongovernmental organizations (NGOs); and helping shape the mission, vision and organizational structure of the fledgling environmental protection agency, the Natural Resources Conservation Authority (NRCA). These efforts were complemented by bilateral debt reduction negotiations which gave rise to a local currency endowment managed by the Environmental Foundation of Jamaica. The Foundation, through its grant program, has lent critical support to the NGO mobilization and community empowerment so critical to

the overall USAID environmental program's success. In the last year, USAID has adjusted its shelter and agricultural portfolios to enhance support to pollution mitigation and environmentally sound hillside farming practices. A proposed new project will address the effects of poverty and urbanization on Jamaica's fragile natural resource base. It will emphasize the introduction of low-cost technologies, community action and education to mitigate the degradation of water resources, coastal zones and urban watersheds caused by widespread, accelerating squatting--all of which threaten environmental quality, public health conditions, and Jamaica's critical tourism industry.

**Indicators.** Success of USAID's environmental program will be measured by sewage treatment improvements in Montego Bay which are targeted to reduce coliform counts from five million to less than 10,000 parts per 100 milliliters by 1995. Over 20,000 small hillside farmers will have been trained in improved soil management practices, and will have planted tree crops by 1997. By 1995, at least 1,500 squatters' homes in Montego Bay will have dry latrines which create compost instead of sewage, and by 1996, this technology will begin to be installed, with the help of neighborhood enterprises, in low-income communities island-wide.

**Feasibility and Cost-effectiveness.** With a total USAID investment of roughly \$2-3.5 million per year, USAID's strategy for protecting the environment concentrates on three vital, but achievable, program outcomes: improved management of environmentally threatened areas, natural habitat conservation and capacity building for environmental action. The program is cost-effective. For example, investing \$3 million of USAID funds in the national parks system is expected to yield a benefit-cost ratio of about 4:1, and should generate net economic benefits of over \$23 million between 1992 and 2005, primarily from tourism revenue and jobs preserved.

**Progress in 1993-1994.** In the area of improved resource management, the hillside agriculture project helped an additional 2,000 farmers plant tree crops, bringing the total number of assisted farmers to over 10,000, with resulting improved soil management, water retention and income potential. USAID's support to the NRCA has resulted in its design and rapid implementation of a comprehensive, industrial pollution, monitoring and reduction program. NRCA has exceeded the expected target of two successfully concluded enforcement actions in 1993. The shelter program is using the Housing Guaranty and related grant funds to assist the GOJ in its first concerted effort to control pollution caused by the urban poor squatting in environmentally fragile areas. To protect Jamaica's rich biodiversity, USAID has helped establish the two existing national parks, spanning over 200,000 acres across the high peaks of the Blue and John Crow Mountains, and a marine reserve around Montego Bay. Already, the number of Jamaican and foreign visitors to the two parks, at 35,000 in 1993, exceeded the target of 25,000.

**Donor Coordination.** As the lead environmental donor, USAID has worked with the NRCA to coordinate effectively the Canadian, European Union, Inter-American Development Bank, World Bank and other environmental programs. USAID also started a group of eight major bilateral and multilateral donors working on Jamaica's watersheds and hillside farms. As a result of this coordination effort, the group has uncovered and addressed at least three major issues of program overlap and opportunities for enhanced impact.

**Constraints.** Poverty poses the single most significant threat to achieving a more balanced natural resource management and conservation regime in Jamaica. USAID's portfolio must now respond to this challenge by addressing more directly the needs of the urban poor, as well as by intensifying its outreach to the small hillside farmers and rural inhabitants who encroach on the national parks and inadvertently destroy watersheds.

## **STABILIZING POPULATION GROWTH (\$2,538,000).**

**SO 3. Healthy, smaller families (\$5,568,000 of which \$3,030,000 is for Economic Growth and \$2,538,000 is for Stabilizing Population Growth)**

Although Jamaica's health indicators are relatively good for a developing country, the Government is under increasing pressure to continue to provide quality health services to the poorest strata of society, while it is undergoing a major restructuring of its economy. AIDS, drug abuse, and teen pregnancy are increasing, overloading the health system and threatening to undermine the impressive gains in health status made during the 1970s and 1980s. This strategic focus was based upon a careful analysis of the critical gaps in GOJ and other donor support for population planning and maternal health, the GOJ's strong commitment to meet its ambitious fertility reduction and HIV prevention objectives and USAID's recognized comparative advantage in delivering population and maternal health assistance.

**Activities.** Through its family planning, AIDS prevention and health sector initiatives, USAID promotes the Agency's goal of "stabilizing population growth and protecting human health" by expanding the range, access and private provision of effective contraceptives; by controlling the spread of HIV and other sexually transmitted diseases (STDs) and by supporting essential health reforms which assure greater access by the poor to vital health services. Activities under this strategic objective are targeted at helping the GOJ implement cost-recovery systems and contain costs through divestment and greater cost-sharing with the private sector. USAID's family planning program in Jamaica is designed to delay the age of first birth, thereby optimizing the employment potential of young women before childbirth and reducing the health complications associated with teen pregnancy, and to reduce family size from the current five members per family to four. Activities targeted at reducing the spread of AIDS and sexually transmitted diseases and the use of illegal drugs comprise the final element of this component of USAID's strategy in Jamaica. A proposed new and cross-cutting project under this objective will assist young, disadvantaged youths through NGO intermediaries. The focus will be on providing family planning and maternal health services, literacy training, and job skills development to improve employment and income opportunities and to prepare adolescents to assume responsible adult roles.

**Indicators.** Reductions in fertility from 2.9 live births per woman in 1989 to 2.3 in 1998 and the incidence of HIV and selected sexually transmitted diseases, as well as access to care by the poorest segments of society, are the key indicators used to measure performance of USAID assistance to the health sector. Other intermediate indicators include increases in contraceptive prevalence (from 55% in 1989 to 68% in 1998), changes in the contraceptive method mix (from 43% using long-term methods in 1989 to 60% in 1998), and increases in condom use.

**Feasibility and Cost Effectiveness.** Numerous studies, including one in Jamaica, have demonstrated the cost-effectiveness of investments in family planning. A 1992 cost-benefit analysis of the Jamaica family planning program found total savings in GOJ health and education expenditures to be about \$154 million in constant 1989 dollars over the 30-year period, 1970 to 2000. The benefit cost ratio for this program is 3:1 over this same 30-year period, with an internal rate of return of 20.3%. The program has had significant demographic impacts with fertility declining from 5.4 live births per woman in 1970 to 2.9 in 1993. While comparable data are not available for the AIDS/STD program, investments in AIDS prevention are expected to result in health care savings for every case of AIDS averted. Investments in the prevention of sexually transmitted diseases are small relative to the benefits of future reduced costs for diagnosis and treatment.

**Progress in 1993-1994.** Based on the demographic survey completed in 1993, performance in family planning has been considerable. The national family planning program has attained 62% contraceptive prevalence, up from 55% in 1989 (6% higher than the original target.) Total fertility remained unchanged, emphasizing the need to promote broader acceptance of long-term contraceptive methods, a key objective of USAID's family planning initiatives. There has been a national shift towards reliance on the private sector for the supply of contraceptives. Also, two new, more effective, long-term

methods (Norplant and no-scalpel vasectomy) have been introduced. In another significant development made possible by USAID support, the GOJ approved a national policy to integrate family life education at all levels of the school system. These measures have contributed to the sustainability and expansion of Jamaica's national family planning program. In terms of the AIDS/STD program, testing services increased by 58% over last year, thus improving the GOJ's ability to detect many more cases of sexually transmitted diseases at an earlier, less costly stage. Another major accomplishment has been a 108% increase in condom use since 1989. Finally, Jamaica's cost-recovery program, designed to ensure that quality services are available for low-income groups, has made good strides. Currently, patient fees account for 9% of hospital costs, up from less than 1% two years ago. These fees are helping to sustain vital public health services throughout the island.

**Donor Coordination.** Other donors in the health sector have primarily focused their loan funds on infrastructure development, work force training, and university-level education programs. Recently, the USAID has been working to attract Japanese financing for population and AIDS prevention programs.

**Constraints.** As Jamaica looks toward the twenty first century, its public health system not only must continue to sustain primary health care services, but also will need to deal with the increasing demand for more costly chronic care. A key constraint is the availability of sufficient private funding to meet the demands of rising health-care costs. Another constraint is rising expectations about the need for sophisticated health technology. The government needs to make some politically difficult decisions about the types of services and technology it wishes to provide and can afford to sustain. Another important constraint is that management of many of the chronic diseases facing Jamaica, including cancer, heart disease, diabetes, sexually transmitted diseases, and road traffic accidents, is related to lifestyle changes as opposed to direct medical interventions. Failure to modify behavior may limit the Government's ability to deal with rising health-care costs.

This strategic objective addresses not only population growth but also economic growth, as discussed above.

#### **CROSS-CUTTING ISSUES (\$484,000).**

Following a 1991 sector assessment that rated Jamaica's democratic institutions and practices as relatively strong, USAID determined that it would not pursue a separate strategic objective in this area, although it has supported targeted activities, including sponsoring the participation of the Agency's senior democracy advisor in a forum that addressed electoral reform. Also, USAID is the sole donor to assist in judicial modernization, through its sustainable justice reform project. The project has focused on improving court and justice administration, including activities aimed at cost-recovery, docket management, courthouse consolidation, administrative policy reform, public education and alternative dispute resolution. Success in these efforts is expected to boost the level of confidence in the justice system. Other donors are assisting in the area of good governance, with IDB financing GOJ administrative reform, and UNDP funding a study on improving GOJ operations.

**Other Donor Resource Flows.** In FY 1993, the United States provided about 15% of total reported disbursements of all donor assistance to Jamaica. Other major donors are: World Bank, Caribbean Development Bank, IDB, United Nations agencies, European Union, Germany, Japan, Canada, United Kingdom, and the Netherlands.

**JAMAICA**

**FY 1996 SUSTAINABLE DEVELOPMENT PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Increase Participation for Equitable Economic Growth	4,737,000				4,737,000
2. Improved Environmental Protection and Natural Resource Management			5,073,000		5,073,000
3. Healthy, Smaller Families	3,030,000	2,538,000			5,568,000
4. Cross-cutting issues	484,000				484,000
<b>TOTAL</b>	<b>8,251,000</b>	<b>2,538,000</b>	<b>5,073,000</b>		<b>15,862,000</b>

USAID Mission Director: Carole Henderson Tyson

## MEXICO

**FY 1996 Development Assistance Fund Request:..... \$ 24,242,000**

The United States and Mexico share a 2,000 mile border. Mexico's success in challenging the problems of immigration, poverty, population and environmental degradation will ultimately become our success or our failure as well. U.S. interests impel us to strengthen our partnership with Mexico, as together we press forward to solve problems of common concern and to create mutually beneficial opportunities for the 21st Century. Trade with Mexico, which will account for 55% of U.S. exports to Latin America and the Caribbean, has returned to high growth rates over previous years.

Mexico, southern neighbor of the United States, has undergone a metamorphosis in the last decade. By embracing democracy, privatization and free trade, Mexico hopes to reinvent itself and assume a participant role among the world's developed nations. Democracy is an essential condition to a vital and sustainable prosperity, and likewise, such prosperity is a key to maintaining a viable democracy. The timing is optimal, therefore, for USAID to assist Mexico in developing a program of sustainable and broadly based economic growth and protection of the environment. Family planning efforts must be continued as Mexico assumes increasingly greater responsibility for the program. U.S. assistance to Mexico is in reality as much an investment in the United States as it is in Mexico, for if only due to proximity, our futures are inextricably linked.

### **The Development Challenge.**

Mexico has made significant progress over the last year in reforming its electoral process, improvements culminating in August 1994, in the most transparent elections in the history of the country. The economy, which had appeared outwardly robust and reasonably stable, has recently suffered a battering on international markets as a result of unexpected peso devaluation and ensuing collapse of investor confidence. Assassinations of several key political figures and civil unrest in the State of Chiapas have exacerbated tensions in Mexico. These setbacks will likely slow the pace of progress, but will not halt it altogether. In fact, events have highlighted the importance of continued governmental reforms to drive a swift economic recovery.

Fittingly, even prior to the recent economic crisis, the newly installed President advanced sweeping proposals for judicial reform. Successful passage and implementation of these proposals will be critical to restoration of investor confidence and subsequent economic revitalization. The North American Free Trade Agreement (NAFTA) also will provide opportunities for an improved quality of life. These opportunities will not come, however, without significant challenges to the environment. USAID, which assisted in garnering support for the passage of NAFTA, is now in an excellent position to act as a mentor to Mexico in helping develop technologically appropriate and sustainable implementation methodologies.

### **Strategic Objectives (SOs).**

USAID is pursuing three strategic objectives in Mexico. In addition, other cross-cutting activities in democracy and human rights and dissemination of information on human immunodeficiency virus (HIV) transmission are being advanced in support of the strategic objectives for 1996.

## **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$1,439,000).**

### **SO 1. Improved performance of target institutions in selected legal/regulatory areas related to the NAFTA (\$654,000).**

The NAFTA, while not the answer to all of Mexico's problems, offers significant promise as a vehicle to greatly improve long-term economic prospects. Successful implementation of NAFTA will include Mexico's ability to comply with pertinent laws and regulations. Key counterpart agencies within the Mexican government have been targeted for training and information exchange in order to achieve this objective.

Activities. Focus has been on compliance with commerce, labor and maritime laws, through information exchange and training, both in the United States and in Mexico. Courses have been conducted on product labeling and nutrition standards; patent, trademark and copyright application processing and standards for occupational safety and health of workers. Field training in the use of turtle excluder devices by Mexican shrimp fleets has taken place in several locations in the Gulf of Mexico. The patent and trademark training project has been conducted both in Washington as well as Mexico City. Participants have received general instruction, followed by specific course work related to particular areas of responsibility such as biotechnology. This educational and training process is resulting in Mexico's ability to implement more effectively and efficiently the provisions of NAFTA, thus realizing almost immediate economic benefits from the treaty.

Indicators. USAID indicators for measuring progress toward achieving this objective are: (1) increased percentage of inspections that follow newly developed norms for industrial pollution control; (2) increased percentage of shrimp boats in compliance with required use of turtle excluder devices in the Gulf of Mexico and the Caribbean and (3) reduced backlog of patent applications.

Feasibility and Cost-effectiveness. Rapid and effective implementation of NAFTA by Mexico will support the economic revitalization and growth of that country. Additionally, enhanced economic health in Mexico will result in more jobs in Mexico, more disposable income, and very likely, more imports from the United States. Confronting environmental challenges early on should lead to a comprehensive bilateral approach to dealing with current and future problems. If the environment becomes a victim of NAFTA, then even the most stunning trade increases will be a pyrrhic victory.

Progress in 1993-1994. All training goals under each of the three indicators have been met. The development of a shadow program to strengthen Mexican Government regulatory capacity is underway and quantitative data to compare against indicator number one should be available by the end of 1995. As of the third quarter of 1994, trends reflected 100% compliance with shrimp boats inspected for use of required turtle excluder devices. A re-assessment is planned in April 1995 to determine the validity and reliability of previously collected data. This exercise should be revealing as to whether these results will continue to be exemplary, and if so, whether they will provide evidence for sustained achievement of the indicator. Finally, the 8 - 11 year Mexican patent and trademark backlog has been eliminated, and in the process of becoming current on applications, more than 10,000 patents were issued by Mexico to U.S. citizens.

Donor Coordination. The World Bank and the Inter-American Development Bank are donors in the NAFTA initiative. These institutions are joined by the Government of Mexico (GOM) which has been an active contributor in all aspects of the economic growth objective, covering all salaries and partial expenses of training participants as well as by providing in-kind donations. Canada, the third NAFTA partner, has been involved in various aspects of the labor initiative and in the nutrition and labeling standards program.

Constraints. NAFTA has opened the door for Mexico to become a more equal partner with the United States and Canada. The recent change in administrations has resulted in a massive personnel turnover



in the bureaucracy of Mexico. It will take some time before fully effective working relationships are developed with the new counterpart agencies. Additionally, the recent economic upheaval has created a tension and uncertainty in Mexico that must be overcome before substantive progress can be made on economic or environmental issues. The positive side of all this is that, with various reforms already in place and other important changes contemplated, Mexico is well positioned for a swift recovery.

In addition to the above objective, USAID also addresses economic growth by increasing the availability of information on HIV transmission and prevention, as discussed under cross-cutting issues, below, and by addressing environmental activities as discussed under SO2 below.

## **PROTECTING THE ENVIRONMENT (\$5,403,000)**

**SO 2. Increase environmentally sound natural resource and energy use (\$5,403,000 of which \$500,000 is for Economic Growth and \$5,403,000 is for Environment).**

Pollution and environmental destruction are problems which respect no political boundaries. Noxious emissions in Ciudad Juarez, Mexico freely cross the border to El Paso, Texas. Contamination generated in Tijuana, Mexico, will quickly spread to San Diego and beyond. Improper management of forests and energy results in waste and in the longer term, climate change. However, laws governing the environment are only as good as the capability and willingness of governments to enforce them. USAID's environmental program in Mexico focuses on two global environmental problems: global climate change and biodiversity conservation. It is building capacity in both governmental and non-governmental entities and is creating bridges to understanding the value and importance of compliance.

**Activities.** To mitigate the impacts of global climate change, USAID is supporting activities in forest conservation and energy efficiency. Forest conservation efforts are focused primarily on protection and proper management of biosphere reserve areas and buffer zones. Indigenous populations and non-governmental organizations are engaged and being strengthened in appropriate management and monitoring techniques. In selected areas, the key partner is the Government of Mexico, through target counterpart agencies such as the Secretary of Social Development which is currently charged with enforcement of environmental laws and regulations. Significant elements of the forestry program include empowerment of local populations to develop and utilize the natural resources sustainably for economic gain, such as maintaining plant nurseries and planting sustainable alternative coffee crops.

The renewable energy portion of USAID's environmental program features a grass-roots and private sector approach to working with local populations in development of local, renewable energy sources to meet their needs, rather than extending the costly and inefficient national grid system to remote areas. Many of these activities have created market opportunities for U.S. firms to export goods and services to Mexico. For example, projects based on solar photovoltaic technology have been applied to water pumping for livestock and crop irrigation, lighting for commercial purposes, refrigeration for fish storage, power for grain-grinding and eco-tourism.

To support biodiversity conservation, the Mexico Conservation Fund is being strengthened. Mexico is one of the world's mega-diversity countries and the initial endowment will provide sustainable funding for a wide variety of biodiversity conservation and development activities. Activities focus on conservation science and planning, natural resource protection and management, public-private partnerships in conservation-based local development initiatives, policy analysis, public education and awareness campaigns and training of conservation specialists.

**Indicators.** The indicators for measuring progress toward achieving this objective are: (1) carbon dioxide emissions prevented through selected energy uses per year; (2) average annual deforestation rate in target areas reduced; and (3) number of viable populations of indicator species maintained in target areas.

Feasibility and Cost-effectiveness. The environmental and energy market, estimated at \$1.7 billion in 1990, has been growing steadily. Renewable energy and energy conservation applications are expanding rapidly in Mexico to meet demands for rural electrification and to provide specialized remote power sources. In certain areas, microenterprises have sprung from training in sustainable and appropriate technologies for the locality. Structuring activities so that participants have a financial interest in the outcomes greatly increases the likelihood of success and continuation of the program. Sustainable natural resource management has spun off nontraditional markets such as natural cosmetics, ecotourism and genetic resources. Development of these markets promises to provide income to both Mexican and U.S. firms.

Progress in 1993-1994. Rapid rural appraisals, as well as environment, natural resource, and socio-economic baseline studies, have been completed for the Calakmul Biosphere Reserve and are in process for the Montes Azules Biosphere Reserve and at least seven other sites. Work plans have been developed and approved for eight Parks-in-Peril reserves and protection actions are following accordingly. Training and technical assistance has been provided to more than 150 Mexican environmental professionals under the advanced development country (ADC) training program in 1994 alone. Projects to reduce dependency on burning of fossil fuels have been developed and implemented. Curricula include energy training, demand-side management, integrated resources planning, renewable energy technologies and bio-mass co-generation. Activities promoting environmentally sound microenterprise and nontraditional alternative crops are underway in the buffer zones of six reserves.

An institutional strengthening grant was provided to the Mexican Conservation Fund, the project design for which is nearly complete. This will allow the \$19.5 million USAID contribution to the fund to proceed.

Donor Coordination. The World Bank, the Inter-American Development Bank, the United Nations Energy Program, the GOM, the Mexico Conservation Fund, the World Wildlife Foundation, the Nature Conservancy, the MacArthur Foundation, Bankers Trust, the Packard Foundation and a variety of Mexican and U.S. nongovernmental organizations (NGOs) are contributing financially and non-financially to the environmental initiatives in Mexico. The best example of this is the support provided by seven different donors in the initial design and development of the Mexico Conservation Fund. Discussions are now underway with multilateral development banks to secure the remaining \$70 million needed for the full capitalization of the endowment. As word of success and economically feasible outcomes spreads, it is anticipated that more donors will come on board. A concerted effort is underway to recruit additional, long-term financial participants.

Constraints. The recent change of administrations in December 1994, including the creation of a new and integrated environmental ministry, will cause some delay in implementing programs until relationships with new cabinet and department heads are forged and rapport is developed. Because awareness and support for environmental activities have been increasing sharply over the last several years, it is not anticipated that any significant impact will result from these potential changes in timetables.

## **STABILIZING POPULATION GROWTH (\$16,882,000)**

### **SO 3. Sustainable increase in contraceptive prevalence (\$ 16,882,000).**

In the half-century from 1940 to 1990, Mexico experienced a population explosion, witnessing an incredible four-fold increase from 20 to 81 million persons. Recognizing that family planning was essential to economic growth and stability, approximately two decades ago, the Government of Mexico approached USAID for help in moderating this skyrocketing rate of population increase. During this time, the annual rate of growth has declined from 3.2% to 1.8% and the fertility rate has declined by more than 50% in the same period. Work remains to be done, however, particularly in rural areas where lack of resources has limited the availability of family planning information and services.

Activities. The USAID goal is to ultimately phase USAID out of population activities and to have the Government of Mexico, in partnership with NGOs, assume complete responsibility for continuing the program. Toward this end, USAID has assumed a coordinating role, leaving direct service delivery to the Government of Mexico and the participating NGOs. USAID has provided technical assistance, training and limited commodity costs required to establish an institutional framework for extending the family planning program to underserved areas. In exchange, the Mexican Government has agreed to assume full responsibility for recurring expenses of maintaining the program.

Indicators. Because of the high degree of confidence in the USAID population program, the sole determinant of success is a sustainable increase in the contraceptive prevalence rate.

Feasibility and Cost-effectiveness. In November 1991, USAID entered into a landmark agreement with the Mexican Government and key private sector family planning organizations. A critical aspect of this agreement is the United States' plan to incrementally decrease funding for the population program through 1998, and the Mexican Government's commitment to increase its funding in comparable amounts. Mexico is acutely aware that, absent stability in population growth, there will be neither prosperity nor peace.

Progress in 1993-1994. Unprecedented levels of cooperation have developed among the four, separate Government of Mexico implementing agencies, the NGOs and USAID. The Government of Mexico fully complied with its obligations in 1993, which mandated that the government purchase 50% of their program requirements for pills, condoms and intra-uterine devices (IUDs). Third-quarter data from 1994 reflect that the government has again met its contractual obligation, this time for purchase of 75% of the program needs. A survey is underway to determine current rates of contraceptive prevalence.

Donor Coordination. The World Bank, The Inter-American Development Bank, the United Nations Fund for Population Activities, and the Government of Mexico are the major donors to the population program.

Constraints. Again, as with the other strategic objectives, it will take some time to develop new contacts within the administration. Because of the fact that the Government is so immersed in the population program, any "down time" is likely to be minimal. Outreach into more remote areas will be a challenge, as transportation and communications are generally more difficult in such locations. The nongovernmental organization involvement will serve the program well in this regard, as a grass-roots approach can be employed, bolstering the likelihood of desired longitudinal outcomes.

#### **CROSS-CUTTING ISSUES:**

Mexico has two targets of opportunity identified for 1996 which indirectly support and reinforce various aspects of the strategic framework.

##### **1. Increased availability of information on modes of transmission and prevention of HIV (\$285,000 for Economic Growth) .**

USAID has been working in the area of information dissemination for AIDS prevention for a number of years. Certain activities are focused on reaching women, adolescents and migrant groups, while others are directed to a national audience. USAID provides funding to NGOs which deliver services through lectures, conferences, formation of local groups and clubs and similar approaches tailored to the needs of the target audiences. USAID's HIV activities are mutually complementary with specific activities, such as condom distribution promoting safe sex, funded under the population growth strategic objective.

**2. Strengthened capacity of target institutions to deal with selected democracy/human rights issues. (\$518,000 for Building Democracy).**

Because of the high political sensitivity involved in building democracy, and in acknowledgment of the current climate of reform in Mexico, work during 1994 was aimed at providing information, global database links and organizational support to Mexican legislators and NGOs on bilingual education, human rights and democracy issues. The key partner in this regard was the Congressional Human Rights Foundation. The Mexican Government has requested further assistance from this organization and plans are in the making for a 1995 agenda. Additional efforts were launched and concluded in the area of election monitoring. Assistance in the field of judicial reforms will be a cogent topic for the next several years, as the new administration struggles to bring their ambitious reform proposals to fruition in law and in reality.

**Other Donor Resource Flows:** The top five donors providing assistance to Mexico in FY 1993 were Spain, Japan, France, Germany and UNHCR.

**MEXICO  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>USAID Strategic Objectives</b>					
1. Improved performance of target institutions in selected legal and regulatory areas related to the NAFTA.	654,000				654,000
2. Increase environmentally sound natural resource and energy use.	500,000		5,403,000		5,903,000
3. Sustainable increase in contraceptive prevalence.		16,882,000			16,882,000
<b>Cross-cutting issues:</b>					
Increased availability of information on modes of transmission and prevention of HIV.	285,000				285,000
Strengthened capacity of target institutions to deal with selected democracy and human rights issues.				518,000	518,000
<b>Total</b>	<b>1,439,000</b>	<b>16,882,000</b>	<b>5,403,000</b>	<b>518,000</b>	<b>24,242,000</b>

USAID Mission Director: Arthur H. Danart

## NICARAGUA

FY 1996 Development Assistance Fund Request: . . . . . \$ 37,234,000

Nicaragua is making genuine progress in building an inclusive democratic society and a broad-based market economy. It is in the United States interest to help Nicaragua achieve long term political stability. A stable Nicaragua is key to regional economic integration and increased trade. In the decade of the 1980s, civil war and economic mismanagement reduced income per capita by half, leaving Nicaragua the third-poorest country in the region. The election of 1990 brought to office Nicaragua's first freely elected democratic government in over a century. The current government is treading a difficult path in a still polarized political situation, and democratic institutions and values are fledgling. On the economy, United States economic assistance has helped the Government of Nicaragua (GON) to halt five-digit hyperinflation and jump-start economic growth. Nicaragua is now poised for economic recovery. Yet, in 1996, Nicaragua faces the challenge of another politically charged national election. Continued United States assistance is vital to our interests in the consolidation of democracy and sustainable development in Nicaragua, and stability in Central America.

### The Development Challenge

Nicaragua's per capita gross domestic product (GDP) is the third lowest in the hemisphere after Haiti and Guyana. Continued lack of political consensus, unresolved confiscated property cases, uncertain land tenure, and an economy still showing the effects of war and socialist mismanagement during the last decade represent daunting development challenges. Nicaragua is an agrarian economy where rural residents account for 63% of people living below the poverty line and for 78% of the population living in extreme poverty. Small farmers growing basic grains continue to be the mainstay of the economy, with nontraditional crops growing rapidly. Agricultural exports, starting from a very small base in 1990 are recovering, expanding at an estimated 60% from 1992 to 1993. However, land tenure insecurity affecting approximately 166,000 farm families, low technology levels which have produced small yields, limited access to productive credit, and inadequate basic infrastructure (e.g. roads, ports telecommunications, etc.) continue to be major impediments to recovery and agricultural expansion.

During the last four years, the Government of Nicaragua's (GON) sound macroeconomic management program supported by U.S. balance-of-payments assistance was responsible for halting runaway inflation, reducing the size and scope of the public sector, balance of payments and fiscal deficits and reaching agreement with the International Monetary Fund (IMF) and other international donors on a structural adjustment program. With USAID's assistance, there has been progress in basic health and education indicators. Since 1990, the infant mortality rate has dropped significantly, immunization coverage expanded dramatically, use of contraceptives has almost doubled in the past decade, and access to primary education has expanded rapidly. USAID assistance has been and continues to be crucial to support the ongoing transition of this country from deep poverty with low social indicators to a prosperous, open, market economy, and stable democracy with a higher quality of life.

### Strategic Objectives (SOs).

#### ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$20,316,000)

SO 1. Increased economic access and opportunity with improved market efficiency and performance (\$10,960,000)

Despite recent gains in the economy, many of the benefits are not reaching the vast majority of Nicaraguans. According to a recent living standards survey, Nicaragua has approximately 344,827 poor households and 131,000 households in extreme poverty. Despite a predominantly agricultural

society, Nicaragua is ranked as the fourteenth worst food insecure country in the world, exceeded in this hemisphere only by Haiti and about tied with Peru. Markets are fragmented and dysfunctional, with barriers to entry for small and medium producers, and hence do not distribute the benefits of growth down to lower-income groups.

Activities. USAID supports a broad variety of activities to facilitate the growth of new capital markets, to increase productivity, to generate employment and income, and to provide inputs to small producers to enable them to produce more. Efforts include modern technology transfer to increase yields in agriculture and small businesses. This technology transfer makes producers more creditworthy and contributes to their ability to access capital. Under the private agricultural services project, USAID is providing grants to coffee, cattle and grain producers as well as to nontraditional agricultural exporters. Under the employment generation project, USAID has supported the construction of small-scale, labor-intensive infrastructure in the remote Atlantic Coast and throughout the country. Other activities include support for microenterprises in both rural and urban areas under the private voluntary organization (PVO) cofinancing project and technical assistance to small-scale firms under the private sector support program. USAID is assisting the development and expansion of a broad financial system, particularly reinvigorating rural financial institutions and promoting savings mobilization through the rural savings mobilization project. After years of neglect and economic decline, our Atlantic Coast program assisted this remote region to become self-sufficient in rice, helped to plant 1.3 million trees for reforestation, and constructed schools, health clinics, hospitals, bridges and roads to economically reactivate this region.

Indicators. Key program results under this objective include improved private sector transfer of technology and increased opportunity for employment and ownership of productive assets. Indicators to measure progress include: (1) an increase in the number of farmers using improved technology from 7,500 in 1994 to 22,000 in 1998; (2) long-term employment generated in nontraditional agriculture; (3) number of microenterprise loans increased from 2,525 in 1994 to 6,200 in 1996; and (4) short term employment generated by USAID projects from 39,500 person months in 1992 to 150,000 person months by 1994.

Feasibility and Cost Effectiveness. Nicaragua faces a tough challenge to reinvigorate its economy, particularly the agricultural sector. Yet, the government has already succeeded in reversing a highly statist economy, opening markets, liberalizing prices, and privatizing over 350 formerly state-owned firms. The private sector is also opening new financial markets including a stock exchange and an agricultural commodities trading exchange to provide greater access to ownership of assets. Finally, the liberalization of the basic grain prices and improved technology for these products has resulted in higher productivity and prices for small producers of these commodities, and income gains for lower-income Nicaraguans.

Progress in 1993-1994. USAID has provided improved technology to over 3,000 small coffee farmers, 1600 cattlemen, and 600 basic grain farmers. An estimated 32,000 jobs in agriculture have been created as a result of these activities. USAID has signed agreements with private voluntary organizations (PVOs) to provide over 17,000 beneficiaries with microenterprise loans. Private bank assets have grown from nothing in late 1991 to over 50% of the total banking system by the end of 1994. Over 150,000 person-months of employment have been created by USAID employment generation projects.

Donor Coordination. The GON finally concluded in early 1994 an Enhanced Structural Adjustment Facility (ESAF) agreement with the IMF and a corollary macroeconomic policy performance agreement, entitled the Economic Recovery Credit, with the World Bank to assure the appropriate macroeconomic framework for economic growth.

Constraints. Both politics and society in Nicaragua remain highly polarized, and progress on the economic front is dependent on building consensus around economic reforms. Conflicting claims and

insecurity of property continues to impede both local and foreign investment and to divide the country. Finally, lack of access to capital, particularly medium and long-term credit, technology and other productive inputs constrains productivity and recapitalization of agriculture and industry.

#### **SO 4. Improved quality and efficiency of basic education (\$5,297,000)**

One of the key determinants of increasing income, employment and sustainable economic growth is the investment in a well-educated labor force, particularly with the completion of a primary education. Nicaragua has one of the poorest systems of primary education in the region, characterized by high repetition and drop-out rates and lack of resources. Only 22% of children entering first grade complete sixth grade. Teachers are generally uncertified or untrained, poor condition of schools, inadequate or irrelevant curricula, and until recently, textbooks and teaching materials are extremely scarce.

Activities USAID has supported the development, production, and distribution of new curriculum for language, math and civic education; developed new instructional materials; provided in-service training for over 12,000 primary school teachers and trained over 600 Ministry of Education (MED) employees in educational planning, management, and supervision of schools. Technical assistance has assisted MED to review its educational policy framework and the creation of a decentralized model for education.

Indicators Key indicators use to measure this objective are (1) the percentage of children entering first grade eventually graduating primary school increased from 22% in 1992 to 31% in 1996; (2) the average number of years to reach sixth grade reduced from 16.0 in 1990 to 7.8 in 1996; and (3) non-salary expenditures per student increased from 4.46% in 1991 to 12% in 1995.

Feasibility and Cost Effectiveness Evidence in Asia and elsewhere in Latin America indicate that primary education is the most cost-effective investment for development. Hence, USAID has focused its efforts on increasing the quality and efficiency of Nicaraguan schools to produce increased numbers of children who attain skills in basic literacy and numeracy.

Progress in 1993/1994 The number of years to produce a sixth grade graduate dropped from an estimated 16 in 1990 to 9.3 in 1993. A total of 3.7 million textbooks had been purchased and distributed with USAID assistance, global curriculum reform plan has been developed and 40 MED staff have been trained in curriculum development. Over 4,500 teachers have received training in active learning methodology and a 5 year strategic plan for upgrading the skills of teachers nationwide has been developed. MED has implemented an experimental decentralization system for six schools.

Donor Coordination The World Bank is currently developing a program focusing on basic education but focusing on policy level inputs and infrastructure rehabilitation.

Constraints While budgetary resources to MED are increasing proportionally, GON fiscal austerity measures may reduce in absolute terms the level of funding to the sector. Furthermore, by law, the university levels must receive 6% of the overall budget, effectively shifting the balance of funding away from primary schools.

#### **SO 5. Improved maternal and child health (\$9,686,000 of which \$4,059,000 is for Economic Growth and \$5,627,000 is for Stabilizing Population Growth)**

Despite reductions over the last decade, Nicaragua continues to have high infant and childhood mortality rates. Diarrheal diseases and acute respiratory infections are major causes of mortality among children. While significant strides have been made in improving immunization coverage, 10% of all infant deaths and 12% of deaths occurring after the first year of life are still caused by vaccine preventable diseases.

Family planning for both birth spacing and limiting family size has been shown to reduce both maternal and infant morbidity and mortality and thus forms part of the strategy for improving maternal and child health. As measured by various indicators contraceptive use has increased in Nicaragua over the past few years. This has not made a significant impact on total fertility or population growth rate because voluntary sterilization is the preferred method of contraception and most women opt for it after they have had four or five children. The challenge is to promote the use of temporary methods and to encourage women to seek surgical contraception sooner.

Activities. USAID is helping to transform the Nicaraguan health system, making it more sustainable and accessible to the needs of Nicaraguan citizens through decentralization and a greater focus on primary care. Working with the Ministry of Health (MINSa) in five priority regions, USAID supports preventive maternal and child health survival interventions in the areas of control of diarrheal diseases and acute respiratory infections, nutrition education and immunization. Emphasis is on training of community health workers and expanded immunization efforts. USAID is aiding MINSa and PROFAMILIA in the expansion of family planning services, particularly in underserved areas. With USAID assistance, PROFAMILIA will encompass a network of 800 community-based distribution centers backed by 11 full service clinics.

Related Activities. USAID also funds primary health care programs with U.S. PVOs such as Project Hope, World Relief Corporation, the Adventist Relief Agency, and Save the Children Federation which are expected to reach more than 100,000 mothers and children with health, nutrition education, and expanded primary health care services.

Indicators. The key progress indicator to measure this objective for the next five years is a drop in infant mortality from 58 per 1000 live births in 1993 (down from 72 per 1000 in 1990) to 50 per 1000 in 1996. Key indicators for measurement of progress toward stabilizing population growth are (1) a drop in the fertility rate from 4.6 children in 1993 to 4.0 children in 1997; and (2) increased contraceptive use prevalence from 48.7% in 1993 to 53% in 1997.

Feasibility and Cost Effectiveness. PROFAMILIA and the Ministry of health (MINSa) have an existing network of clinics and health posts. Although the network is characterized by an inadequately trained staff, and a lack of medicines and supplies, and have inadequate budgetary resources it forms an initial framework for improving maternal and child health services in Nicaragua. The recent family health survey indicates a strong demand for contraceptives and family planning services. PROFAMILIA and MINSa have an existing network of clinics and health posts that have poorly trained staff, lack medicines and supplies and budgetary resources.

Progress in 1993-1994. The mortality rate for infants less than one year old has dropped from 72 per 1000 in 1990 to 58 per 1000 by the end of 1993. With USAID provided inputs, the average immunization coverage has risen from 75% in 1992 to 88% last year due to nationwide immunization campaigns. By 1992, use of contraceptives has increased to 49% of married women from an estimated 27% in the past decade, with a corresponding decrease in the fertility rate. This has been accomplished without a change in the age at first birth, confirming the increased use of modern methods of contraception for spacing births and limiting families to the desired size.

Donor Coordination. A donor coordination group, headed by the MINSa, has been established, and is meeting regularly to coordinate progress in this sector. A donor coordination group, headed by the MINSa, has been established, and is meeting regularly to coordinate progress in this sector.

Constraints. Physical access to health care is very uneven throughout Nicaragua. In particular, women and children living in poor remote mountainous regions are underserved by the existing health system. Information systems are weak and unreliable, making effective targeting of resources and services difficult. The GON lacks a clear population policy and conservative attitudes in some sectors of



Nicaraguan society make acceptance of family planning problematic. Poor, remote mountainous regions are also underserved by the existing family planning system.

This SO addresses both broad-based economic growth and population goals.

## **BUILDING DEMOCRACY (\$6,218,000)**

### **SO 2. Greater Consensus on Democratic Values (\$6,218,000)**

In 1991, the country's lack of experience with democracy, the polarization of society and politics, and lack of confidence in key institutions led USAID to focus its efforts on strengthening democratic values and institutions. For example, for 16 months in 1993-1994, the legislature faced political paralysis and was not functioning. The key position of Controller General was vacant for a period of 15 months. Widespread perception of the judicial system as being slow and unwieldy, ineffective, and fraught with corruption reduced the effectiveness of the law in dealing with political and social conflict. While all armed groups have laid down their arms, there is a continuing level of tension in the countryside and human rights abuses continue to occur.

Activities. Respect for human rights, civic education, strengthening of key governmental institutions, support for decentralization, accountability and transparency in governance are all key elements to a continued open, pluralistic and functioning democracy. USAID programs have provided assistance to the National Assembly, helped train approximately 3,000 judicial system personnel, instituted a massive civic education program to increase awareness of the rights and responsibilities of citizenship, supported decentralization of authority to municipalities and are helping to establish an integrated financial management system for the GON to prevent misuse of government resources. Finally, USAID's electoral support project will work with the Supreme Electoral Council to upgrade the civil registry, assist in the voter registration process, train poll workers and poll watchers, and provide international observers for the 1996 national elections. USAID has also done much through PVO projects and Organization of American States Commission for Support and Verification (OAS/CIAV) to reintegrate former combatants into the productive economy.

Indicators. Indicators to measure progress toward this objective include (1) the expansion of the number of teachers trained in civic education methods from 350 in 1993 to 3,000 in 1994; (2) an increase in the number of union members receiving training from 4,660 in 1992 to 12,800 in 1994; and (3) an increase in the population expressing confidence in key institutions, and support for competition between parties.

Feasibility and Cost Effectiveness. Open and transparent governance, strong and functioning governmental institutions, a participative citizenry, and respect for human rights are all key elements of political stability, which leads to economic growth.

Progress in 1993-1994. The legislature is now fully functioning and recent elections for Asamblea leadership were open and fair, as were recent regional elections on the Atlantic Coast. Passage of the military reform law, a new civil code, and constitutional reforms all represent major advances in building political consensus among the major political parties. The judicial system has replaced over 70% of the lay judges and created a judicial school. With USAID assistance, the new judicial school has trained over 2,400 Supreme Court staff, 200 judges, 72 prosecutors, and over 300 administrators, thus improving the functioning of the entire judicial system. A new Controller General has been selected and is establishing an open and transparent financial management system with assistance from USAID, the Interamerican Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD). Despite weak performance by the GON in prosecuting civil rights cases, due to the International Commission of Support and Verification of the Organization of American States (CIAV/OAS) and local human rights organizations, as well as continued U.S. pressure, the number of

human rights abuses has declined. A civic education curriculum has been established in the secondary school system of Nicaragua with USAID support, training approximately 1,100 teachers.

Donor Coordination. Related activities by the World Bank include a reform of the state program and the Inter-American Development Bank is also providing assistance to the legislature. The United States has sponsored a donor conference and is working closely with other donors to prepare for the upcoming 1996 national elections.

Constraints. Political polarization is still evident and the plurality of parties makes consensus difficult.

## **PROTECTING THE ENVIRONMENT (\$5,073,000)**

### **SO 3. Increased use of environmentally sound productive and extractive practices (\$5,073,000).**

Nicaragua's high population growth rate is putting pressure on developing new land for settlement and exacerbating the need to extract natural resources. Damage to the resource base caused by inappropriate production and extractive techniques threatens long-term improvement in the quality of life for the people of Nicaragua. Loss of forests and other ecosystems and animal species is occurring at an alarming rate. Of the 8 million hectares of forests which existed in 1950, less than half remain in 1994. This translates into a deforestation rate of over 100,000 hectares per year and, left unchecked, means virtual elimination of certain types of forests in 15 years. Nicaragua also has some of the worst environmental pollution problems in the region. Both Lake Managua and Nicaragua are seriously polluted due to run-off from agricultural pesticide use and industrial waste.

Activities USAID is actively involved in reforestation efforts and supported the development of a tropical forest action plan and an environmental action plan, which include management plans for watersheds, critical habitats and other fragile areas. Through a natural resource management project, conservation and management of the Miskito Cays protected area is well underway. The Nature Conservancy, with USAID funding, is developing an integrated, community based management plan for the Bosawas protected area. USAID will expand its efforts at environmental education to increase public awareness of practices that reduce environmental contamination, contribute to sustainable agriculture, and protect biodiversity by reducing demands for fuelwood that create deforestation. USAID is helping develop environmental legislation, relating to environmental impact review of investment, protected areas, forestry management and fisheries.

Related Activities. Under the private agricultural services project, the integrated pest management program has reached 2,200 farmers with training and information related to proper use and application of pesticides. Over 1,800 farmers have been trained under USAID's projects with PVO's in sustainable agricultural practices. Recognizing that rapid population growth exacerbates environmental degradation, the USAID is expanding its family planning programs through the Ministry of Health (MINSAs) and the local International Planned Parenthood affiliate, PROFAMILIA.

Indicators. Indicators used to measure progress toward this objective are (1) a reduction in pesticide applications on key crops; (2) a reduction in deforestation; and (3) an increase in hectares under effective natural resource management increased from 310,000 in 1993 to 500,000 in 1998.

Feasibility and Cost Effectiveness. The GON elevated the Natural Resources Management Institute to a ministerial level, and brought in a new, results-oriented Minister. Management and conservation of protected areas, such as the Bosawas, which is the largest intact, lowland rainforest north of the Amazon Basin, and the Miskito Cays, the most pristine reserve of undisturbed Caribbean coastal and marine habitat, have taken high priority for the new ministry.

Progress in 1993-1994. Pesticide applications of cotton have been cut more than 50% from an annual average of 30 applications in 1990 to 14 in 1993. New forestry legislation is being drafted to improve

management of timber resources. The deforestation rate has slowed and over 310,000 hectares of protected areas are under effective management.

Donor Coordination. USAID was a co-founder, in conjunction with the Swedish and German development agencies of the donor coordination group for natural resources management, which meets regularly to review progress in the sector.

Constraints. Continuing high population growth rates leading to deforestation for fuelwood and clearing of land for new settlements and inappropriate extraction of natural resources, including minerals, fisheries, and lumber, could mitigate GON efforts to preserve the natural resources Nicaragua possesses.

Taken together these objectives represent a coordinated and effective assistance program which is helping Nicaragua make its transition and consolidate its democratic and market economic gains.

**Other Donor Resource Flows.**

In FY 1993, the United States provided about 10% of the total top five donor assistance to Nicaragua. Other major donors are: Japan, Sweden, Germany and the Netherlands.

**NICARAGUA  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
<b>STRATEGIC OBJECTIVES</b>					
1. Increased Economic Access and Opportunity Improved Market Efficiency and Performance	10,960,000				10,960,000
2. Greater Consensus on Democratic Values				6,218,000	6,218,000
3. Increased Use of Environmentally Sound Productive and Extractive Practices			5,073,000		5,073,000
4. Improved Quality and Efficiency of Basic Education	5,297,000				5,297,000
5. Improved Maternal and Child Health	4,059,000	5,627,000			9,686,000
	20,316,000	5,627,000	5,073,000	6,218,000	37,234,000

USAID Mission Director: George Carner

## PANAMA

**FY 1996 Development Assistance Fund Request: . . . . . \$6,285,000**

The principal justification for our assistance to Panama remains the implementation of the Panama Canal Treaties of 1977. The complete turnover to Panama of the Canal, all of the Canal properties and operations, and all of the U.S. military installations in Panama occurs on December 31, 1999. Assistance to Panama is of vital national interest to the U.S. because (1) of its strategic geographic location -- a substantial volume of U.S. trade passes through the Canal; (2) a stable and democratic Panama is essential to the successful implementation of the treaties and for the continued efficient operation of the Canal and the reverted territories; (3) deforestation and overdevelopment could threaten the fresh water resources upon which operation of the Canal depends; and (4) a strong Panamanian economy provides an excellent regional marketplace for U.S. goods and services.

Our programs' strategic objectives (SOs) focus on (a) building and strengthening nascent democracy - building on the free and democratic elections of May 1994; (b) achieving broad based growth to ensure a strong and stable Panamanian economy -- trade has increased steadily from \$1,401 million in 1989 to \$2,695 million in 1993; and (c) protecting Panama's natural resources -- a long term strategy for the Canal watershed is in its final stages of preparation. We have developed a carefully targeted assistance program which focusses on strengthening selected institutions which are important to establishing and maintaining political and economic stability.

### **The Development Challenge.**

Panama is now emerging from more than 20 years of military rule. During much of that time, and particularly under the brutal dictatorship of Manuel Antonio Noriega, corrupt officials looted the national treasury, stripped much of the national forest, destroyed the judiciary, stifled dissent, riddled the country with informers, terrorized and in some cases murdered opponents, and left themselves free to traffic internationally in narcotics, arms and illegal immigration. At the end of that period, the economy had virtually collapsed. There was no national budget process, no systematic tax administration, no control of public finances and no functioning audit system anywhere in government. There was scant respect for fundamental human rights or the administration of justice.

In the five years following the U.S. military intervention under Operation Just Cause, United States Agency for International Development (USAID) has worked with democratically elected Panamanian leaders to build competent civilian government institutions, to encourage citizen participation in government, develop effective financial management, to reform economic policies, and to protect the natural resources of the Panama Canal watershed. The overarching objective has been to help Panama prepare itself for operation of the Canal and reverted territories in the year 2000 and beyond.

As a result, Panama has restored basic democracy. International observers termed Panama's 1994 national elections the cleanest observed in Central America. Panama also has begun to rebuild its independent judiciary, to install effective government budget and accounting systems, to eliminate government controls over a free press, to strengthen the legislative assembly, and to improve the administration of justice. Economic reforms have resulted in an annual growth in gross domestic product (GDP) averaging 7% from 1990 to 1993. Panama has developed, with USAID assistance, a strategic plan to prepare itself for the transfer of the Panama Canal.

However, all of these gains remain fragile in a country with one of the worst distributions of income in Latin America, where unemployment rates exceed 13% and where rural to urban migration threatens to undermine the democratic process and overwhelm environmental sanitation. An even greater threat is posed by international drug trafficking, money laundering and illegal immigration--all of which retain a firm foothold.

## **Strategic Objectives (SOs).**

USAID is pursuing three strategic objectives in Panama that are designed to establish a stable democratic environment in the post 2000 era. USAID's Panama program also includes support for family planning because population growth is a cross-cutting issue which affects achievement of all three objectives.

### **BUILDING DEMOCRACY (\$3,109,000).**

**SO 1. Competent civilian government institutions and greater citizen participation (\$4,683,000 of which \$1,574,000 is for Economic Growth and \$3,109,000 for Building Democracy).**

Long-term political stability requires democratic institutions and an informed electorate which has confidence in public sector financial management and administration of justice. USAID programs focus on these factors.

Activities. The USAID program has been focused at the national level and is beginning to address the grass-roots level. At the national level, the program is establishing a new standardized system for managing criminal cases. It is helping integrate the daily work of prosecutors with that of police investigators, in order to reduce the number of criminal cases which the courts either throw out or return for time-consuming corrections. The program provides specialized training for prosecutors, judges and public defenders as well as for court staff and officials of the Public Ministry. Program activities are helping establish within the Government of Panama (GOP) an integrated financial management system comprised of four sub-systems: (1) A budget sub-system which produces an effective standardized financial plan that facilitates the efficient allocation of resources and control over the expenditure of government funds; (2) An accounting sub-system which classifies, records and analyzes all government financial transactions; (3) A debt sub-system that manages acquisition, servicing and retirement of the public debt; and, (4) A treasury sub-system which manages the cash assets of the government by projecting and monitoring cash flows, receipt and control of revenues and processing of disbursements.

Further, the program is helping to establish a comprehensive audit system to ensure fair, objective, reliable and independent review of government performance and financial reporting.

At the grass-roots level, USAID will work with Panama's newly elected mayors to develop a system of democratic, local government institutions and processes that are responsive to citizen needs. Activities will focus on reforms to the municipal legal framework, extension of municipal services, strengthened municipal administration and improved municipal creditworthiness. In addition, work with Panamanian nongovernmental organizations (NGOs) will improve civic education and participation in the democratic process. Public legal education will emphasize the rights of women and children and other disadvantaged groups.

Indicators. The following indicators measure progress in achievement of this objective: (1) Increased public confidence in the justice system; (2) Reduced time taken for criminal assault cases to move to resolution; (3) Increased percentage of court and Public Ministry employees hired through open competition with the use of standardized criteria; (4) Establishment of an integrated financial management system in the public sector; (5) Increased municipal revenues; (6) Increased user satisfaction with municipal services; and (7) Increased citizen knowledge of legal rights.

Feasibility and Cost-effectiveness. The free, democratic elections of May 1994 strengthened the basis for democratic development in Panama. As the world's oldest democracy, the United States has a comparative advantage in assisting Panama in this area. No achievements could be more fundamental than those of transparent and integrated financial management systems which provide a uniform system for planning, allocating, managing, and auditing GOP financial resources; equitable

administration of justice; and responsive and efficient local government and full citizen awareness of basic rights.

Progress in 1993-1994. USAID assistance to the GOP's electoral tribunal and other groups was essential to the successful conduct of the 1994 national elections which attracted 71% of eligible voters, double the percentage who participated in a November 1992 national referendum on constitutional reform. Public confidence in the electoral system rose from 32% in 1992 to 75% in 1994. International observers proclaimed the elections free and fair. All candidates accepted the results. USAID assistance helped initiate a competitive selection process for court officials which was fully in place by 1994. In 1990, there were no civil service regulations in place, and court employees were hired and fired at the whim of high government officials. Finally, as a result of USAID assistance, all GOP agencies submitted 1994 and 1995 budgets under uniform rules and formats, following Government targets. All ministries and agencies prepared 1994 financial statements under uniform accounting standards. This has improved the GOP's allocation and control of its budgetary resources.

Donor Coordination. The Inter-American Development Bank (IDB) has signed with the GOP a \$750 million loan program for 1995 - 1999. Proposed sectors of activity include "modernization of the state," and support for social investment, urban and rural infrastructure and agricultural modernization. USAID and the IDB meet once a month to systematically coordinate activities of mutual interest and to share information. Informal contact at the staff level is on a daily basis. For example, the IDB plans to provide a \$52 million loan to assist the GOP Ministry of Health in modernizing its administration. USAID is coordinating with the Bank and the Ministry of Health to assist in the implementation of integrated financial management systems and in development of procurement manuals.

Constraints. Many officials of the newly elected national government as well as newly elected mayors of municipalities are without recent government experience. Over centralization of decision making impedes rapid reform efforts and blocks devolution of tax and other authorities to the local level. Drug trafficking and money laundering play on patterns of public and private sector corruption which linger from the long years of military rule.

#### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$2,074,000).**

##### **SO 2. Improved economic policies and business climate (\$500,000).**

Smooth transfer of the Panama Canal to Panamanian control on December 31, 1999, and continued reliable and efficient operation of the Canal beyond that date are in the interests of the United States, Panama and all the other trading nations of the world.

For Panama, the Canal represents its single most important economic resource, directly accounting for nearly nine percent of gross domestic product (GDP) and generating over 8,000 jobs. Spending from U.S. military bases accounts for an estimated additional four percent of GDP as well as for 5,000 Panamanian jobs. The latter will disappear by the end of 1999. Just as a difficult transfer and unreliable operation of the Canal would negatively affect the Panamanian economy, economic (and resulting political) instability would derail the transfer process and lead to operational decisions contrary to the promotion of world trade. Sustained, broad-based economic growth in Panama is essential to creating economic and political stability. Two decades of inward-looking, statist economic policies have distorted the Panamanian economy and skewed the distribution of income. However, in 1990, Panama began the shift to an outward, market-oriented economic policy. USAID, in conjunction with the IDB, the World Bank and the International Monetary Fund (IMF), will continue to encourage and support this transformation.

Activities. USAID will continue to support the GOP in its planning and preparations for the transfer of the Canal and related properties and to provide assistance on development of information systems to manage resources. USAID also will provide technical assistance to help Panama improve its business

climate and attract increased private sector investment. USAID will complete a third cycle of in-country economic training to improve the skills of public sector and university economists.

Indicators. Indicators of progress in achieving this objective are the following: (1) adoption by 1996 of an effective, comprehensive GOP strategy for Canal management and use of reverted areas; (2) implementation of a transition plan for seamless systematic transfer of the Canal; and (3) decrease in Panama's tariff levels and elimination of specific tariffs.

Feasibility and Cost-effectiveness. Funds strategically utilized to facilitate planning and preparation for the transfer of the Canal and reverted areas will promote the productive use of these resources. A strong economic reform program will generate the economic growth needed to offset loss of U.S. military spending. It also will improve business confidence and attract the private sector investment required to effectively develop the reverted areas.

Progress in 1993-1994. Panama established an Interoceanic Regional Authority with special powers and authorities to manage the planning and transfer of reverted properties. During 1994, one major military facility was successfully transferred to the Panamanian authority and use. USAID and other donors are now assisting the GOP to plan the transfer of a much larger set of facilities--that of Fort Amador on the Pacific side of the Isthmus. During 1994, USAID helped the GOP prepare a formal transition plan for the transfer of the Canal. The GOP established another independent Panama Canal Authority that will be in charge of Canal operations, and drafted laws and regulations to govern it.

On the reform side, USAID-assisted efforts have led to: (a) elimination of specific tariffs on 585 customs classifications; and (b) reduction in ad valorem tariff rates on 229 classifications of from 60% to 40% for industrial goods and 90% to 50% for agricultural products. Trade has risen steadily from \$1,401 million in 1989 to \$2,695 million in 1993. USAID also assisted the development of a tourism promotion law and a law establishing a one stop licensing center which significantly reduce the time and expense of starting a business. Eighty-four participants have completed USAID-financed in-country training to upgrade their skills in economics analysis.

Donor Coordination. USAID, the World Bank, the IMF and the IDB have worked closely together since 1990 on technical assistance and compliance related to Panama's economic reform program. The IDB and USAID coordinate efforts regarding land use planning in the reverted areas and hold monthly meetings to coordinate other activities. The IDB is now the leading donor, with \$750 million in financing available to Panama for the period 1994 to 1997.

Constraints. The Interoceanic Regional Authority is experiencing administrative and legal difficulties which limit its effectiveness. These problems must be resolved in order for the Authority to perform its function. Progress on tariff reforms, despite the new government's avowed support for free trade, continues to be slow due to the pressure of powerful interest groups.

In addition USAID assists Panama's economic growth through activities that address competent civilian government institutions and greater citizen participation (\$1,574,000) as discussed above.

#### **PROTECTING THE ENVIRONMENT (\$1,102,000).**

##### **SO 3. Protecting Panama's natural resources (\$1,102,000).**

In 1947, Panama's forest coverage was 70%. By 1986, it had been reduced to 42%. If unchecked, coverage will be reduced to under 30% by the year 2000. Destruction of the forests in the Canal watershed threatens Madden and Gatun Lakes which furnish the fresh water critical to operation of the Canal. The lakes also provide potable water and power generation for the cities of Panama and Colon. In addition, the rain forests of Panama, particularly those of the Darien, are vital reservoirs of biodiversity and form a key link in the Central American biological corridor.

Activities. USAID is providing assistance to the GOP's Institute for Renewable Natural Resources in the management and protection of Panama's parks and reserves. These areas cover approximately 14% of Panama's land area. USAID is helping prepare park and watershed management plans, train technical staff, demarcate park boundaries, help construct guard stations for the protection of the parks, and improve Panama's ability to monitor forest resources. An endowment being established with funding from USAID, the GOP and an American private voluntary organization (PVO) will ensure long-term funding for private voluntary and government organizations to support conservation, environmental education and protection activities, particularly in the Canal watershed.

Indicators. The following indicators will measure progress in achieving this objective: (1) a decrease in the rate of deforestation from a level of 57,000 hectares per year in 1986 to less than 45,000 hectares per year by 1998; (2) establishment of the conservation endowment and funding of public environmental education and non-government organization (NGO) monitoring activities at an annual level of at least \$1,300,000 by 1998; (3) reforestation of 6,000 hectares of land by 1998; (4) establishment of legal protection for all public lands in the Canal watershed.

Feasibility and Cost-effectiveness. Relatively small investments in technical assistance, training and community environmental projects will produce large returns in natural resources protection. Failure to provide this assistance now will endanger future operation of the Canal, with costly ramifications for international commerce. It also risks destruction of areas rich in biodiversity.

Progress in 1993-1994. The GOP passed two laws regulating the use of forests and establishing incentives for reforestation. The GOP measured the level of forest cover in 1986, using equipment provided by USAID. It is now calculating 1992 levels. The GOP hired 105 new park rangers to extend the range and frequency of park patrols. USAID helped equip rangers with radios, vehicles and other equipment. The GOP has completed five park action plans and five park management plans. A long-term strategy for protection of the Canal watershed is in the final stages of preparation. The GOP has declared 205,000 hectares of Canal watershed public lands legally protected, and is discussing legal protection for the remaining 40,000 hectares. Establishment of the endowment is expected in January 1995. A local NGO is being staffed and trained in preparation for administering the endowment.

Donor Coordination. Other than USAID, Spain is the largest bilateral donor in the area of national park development and planning. The Institute for Renewal Natural Resources coordinates all support complementary to the USAID activities under this strategic objective. USAID and IDB coordinate directly in formal monthly meetings and through daily informal contact. A watershed conservation strategy developed with USAID funding will serve as the basis for development of a long-term plan for Canal and watershed management to be financed by IDB.

Constraints. Delay in establishment of the endowment continues to inhibit full program implementation. The lack of stature of the Institute within the GOP could hinder implementation of conservation programs.

#### **Other Donor Resource Flows.**

In 1994, USAID provided approximately 31% of all donor assistance that was disbursed in Panama. The other major donor in 1994 was the United Nations Development Program (UNDP). The IDB has committed \$750 million and will become the major donor in the future. Other donors planning to provide assistance in future years include the World Bank, the IMF, the European Community, Spain, Taiwan and Japan.



PANAMA  
FY 1996 PROGRAM SUMMARY

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Competent Civilian Government Institution and Greater Citizen Participation	1,574,000			3,109,000	4,683,000
2. Improved Economic Policies and Business Climate	500,000				500,000
3. Preservation of Natural Resources			1,102,000		1,102,000
<b>TOTAL</b>	<b>2,074,000</b>		<b>1,102,000</b>	<b>3,109,000</b>	<b>6,285,000</b>

USAID Mission Director: David E. Mutchler

**PARAGUAY**

**FY 1996 Sustainable Development Request: . . . . . \$ 9,285,000**

The consolidation and strengthening of democracy is the United States' over-riding objective in Paraguay. Serious environmental and population problems are also of concern. Strategically located in the heart of South America, Paraguay has 4.6 million people and is one of the poorer countries in the region. With the exception of Haiti, it was the last military-run country in the hemisphere. Since the 1989 coup which toppled a 34 year corrupt dictatorship, Paraguay has restored human rights, passed a new constitution, held free and fair elections, and adopted sound economic policies. But democratic institutions remain fragile, and Paraguay continues to look to the United States for encouragement and assistance. Mismanagement of natural resources and a population growth rate of 3.2% are obstacles in efforts to create employment and provide social services to the people. Paraguay is also a founding member of the Southern Cone Common Market with Brazil, Argentina and Uruguay and is eager to increase trade and investment with the United States.

It is in the interest of the United States to help Paraguay sustain its democratic transition, thereby helping preserve political and economic stability in the region. USAID assistance is helping to modernize the judiciary, the congress and local government. Likewise, modest assistance directed toward rational use of natural resources and increasing voluntary family planning helps advance the United States' worldwide objectives.

**The Development Challenge.**

Paraguay's per capita income of \$1,200 masks a disparity between a wealthy three to five percent and the majority. Its population growth rate is 3.2%, and less than 32% of eligible women have access to family planning. Its maternal mortality is the second largest in the hemisphere, and less than half the population have access to safe drinking water. About 98% of exports are agro-based, and decades of over-dependence on cotton and livestock have taken their toll on the environment. A huge contraband market supports much of the economy. Until the judicial system is modernized, investors will look elsewhere.

In August 1993, Paraguay inaugurated the country's first freely elected civilian president in half a century. Now, an opposition-controlled congress is beginning to collaborate with the executive and judicial branches to modernize the state, reduce corruption and tackle socio-economic and environmental problems. Newly elected governors and mayors face the challenge of participatory government in a country with a history of top-down, single-party governance and corruption. With USAID support, nongovernmental organizations (NGOs) are exerting increased influence in socioeconomic policy and programs that reach the people.

**Strategic Objectives (SOs).**

The goal of the USAID program is increased capacity for sustainable development in a participatory democracy. The program has three strategic objectives and a limited number of supportive cross-cutting activities.

**BUILDING DEMOCRACY . . . . . (\$1,554,000)**

**SO 1. Strengthened democratic institutions, systems and practices (\$ 1,554,000).**

Consolidating and solidifying the democratic transition is an over-riding U.S. goal and the cornerstone of the USAID program. Since the coup of 1989, Paraguay has enjoyed a free press and active media. Human rights have improved, although some problems persist. A new constitution was promulgated in 1992, and governors and mayors were elected for the first time. The nation's democratic institutions -- the judiciary, the congress, the executive and the non-government organization (NGO) community -- show increasing signs of confidence and maturity but remain fragile and need assistance.

Activities. USAID is moving from "pilot" type activities in judicial reform, modernizing the congress and local governance to longer-range projects, which feature increased NGO and citizen involvement. Lessons learned from pioneering work in financial management and accountability with the Ministry of Health will be replicated with other executive agencies and local government. USAID also plans to support free and fair municipal elections in 1996 through a voter education activity, similar to the 1993 successful media campaign run by a consortium of local NGOs.

Related Activities. USAID will also monitor the limited scope activities of the American Institute for Free Labor Development (AIFLD) in labor management relations, as well as the civic education activities of the Partners of the Americas.

Indicators. USAID indicators for determining progress in achieving this objective are: (1) more citizen participation in the decision-making process ; and (2) stronger judicial systems to support timely and impartial prosecution of cases. USAID is in the process of establishing quantifiable indicators.

Feasibility and Cost-effectiveness. Entrenched interests, including the military, are threatened by the citizenry's increasing demand for honesty and transparency. The United States has been the most active bilateral donor in support of the democratic transition. In FY 1996, USAID plans to invest \$1.5 million in judicial reform, legislative strengthening, and local government. Although it is impossible to derive a cost-benefit ratio, reforming the judicial sector is essential to ensure due process and respect for human rights, public accountability and investor confidence. USAID plans to assist in bringing to fruition the opening of a judicial training school, the establishment of a national law library, passage of a new criminal code and procedures; and administrative improvements in the Supreme Court and lower courts. The Paraguayan Congress welcomes continued USAID support to modernize, provide oversight of the national budget, and deal with a staggering agenda of socio-economic legislation. At the local government level, governors and mayors can absorb effectively USAID technical assistance in mobilizing resources for development.

Progress in 1993-1994. The Human Rights Documentation Center, funded by USAID and the Supreme Court, completed microfilming two tons of secret police documents chronicling a generation of human rights abuses under the previous regime. Open to the public, jurists, historians, and families of victims of murder, torture and imprisonment, the archive has provided evidence in 25 official criminal investigations and has led to several convictions.

With USAID assistance, the Paraguayan Congress has expanded its budget oversight role and is organizing itself to face a complicated agenda of political, economic and social issues.

A stronger consensus has emerged on the key role that the judiciary plays in the democratic transition. USAID and the judiciary have created a permanent Judicial Reform Management Group, which includes judges, prosecutors and support staff working on training, court administration, case-load reduction, alternative dispute resolution, and management information systems.

The Paraguayan Congress passed the Magistrates Law, which establishes an independent body to

accredit and appoint judges and prosecutors. The draft law was produced by a noted Paraguayan jurist under the USAID judicial reform project. Draft legislation, establishing a judicial training school, funded by USAID, was also presented to the Congress.

At the local government level, the nation's first group of elected governors and mayors is lobbying with increased confidence for a mandate which gives them the authority and resources for local development. USAID-sponsored seminars produced a consensus that they must define their agenda, plan and identify resources. Citizen groups are beginning to play a greater role in defining priorities.

With USAID help, the Capitol of Asuncion has taken steps to improve its financial base and create transparent systems of accountability for budget resources, contracting and procurement.

Donor Coordination. The United States has taken the lead in encouraging the donor community to support democracy, especially with the Inter-American Development Bank (IDB). Using studies funded by USAID, the IDB is designing a complementary project to help modernize the judicial and legislative branches, and strengthen local government and electoral systems.

Constraints. Paraguay looks to the United States for help, but USAID staff and budget resources are limited, as is host-country absorptive capacity. The USAID Mission uses U.S., host-country, and third-country sources for technical assistance and training, "stretching" each U.S. taxpayer assistance dollar.

## PROTECTING THE ENVIRONMENT . . . . . (\$ 2,758,000).

### SO 2. More sustainable management of natural resources (\$ 2,758,000)

Paraguay's biodiversity is at great risk. Intensive, unsustainable exploitation of land, water and wildlife continues. Clearing of forest for agriculture and livestock is the major threat to the survival of characteristic ecosystems. Paraguay has lost more than 50% of its forest cover in the last 40 years, with deforestation reaching 1 million hectares in 1990, alone. Less than 15% of the eastern region where the most valuable tropical forests are located, remains under forest cover. Wood extraction is double the sustainable rate. Only 4.4 % of the country is under some form of environmental protection, and many habitats of ecological significance are not represented. The number of critically endangered species is 25 and continues to climb. Agricultural development continues with little regard for environmentally sound farming and livestock practices, with potentially drastic long-term effects on the economy which relies on the natural resource sector for half the nation's employment and all of its export earnings. The United States, through USAID, is expected to play a key role in increasing local capacity for managing the country's natural resources and protecting the environment.

Activities. USAID supports environmental awareness and education community action plans and environmental legislation through grants to local NGOs, including the Moises Bertoni Foundation and Alter Vida Foundation which conduct seminars, workshops and education campaigns.

Under the Parks-in-Peril program, a coalition of government and private organizations continues to lobby for protection of ecosystems, the creation of more national parks and resources, and the preservation of threatened tropical forest habitat, such as the 62,000 hectare Mbaracayu Nature Reserve in Northeast Paraguay. USAID also intends to undertake a limited activity in pollution control with selected local governments.

Related Activities. USAID-supported activities in local government and legislative strengthening also serve to accomplish environmental objectives. The Bicameral Commission on the Environment of the Paraguayan Congress, for example, has passed several important pieces of legislation with USAID assistance. Local governments are beginning to adopt environmental objectives in their development plans. In 1995, USAID plans to set up an environmental working group under the joint Government of Paraguay (GOP) and USAID judicial reform project, with the objective to prosecute major

environmental crimes.

Indicators. To determine progress toward achieving the strategic objective, USAID has defined two key indicators: (1) an increased percentage of the target population who adopt alternative economic activities; and (2) an increased percentage of protected areas.

Feasibility and Cost-effectiveness. While some environmental activities are targeted geographically, the scope of the strategic objective is nationwide. Efforts to influence policy through environmental education and technical assistance, and its contribution to developing a system for protected areas have nationwide impact. USAID's support for the National Master Plan for Protected Areas has provided a framework for protection of 44 areas, with representatives of all major ecosystems. USAID plans to obligate \$2.5 million in FY 1996 for an expanded environmental awareness and education program through local NGOs, for the inclusion of additional reserves in the Parks-in-Peril program, and for the implementation of community-based, environmental action plans in selected states and municipalities. The cost-benefit ratio of USAID investment is difficult to estimate. However, the eventual value to the country of USAID technical assistance to the Bicameral Commission on Environmental Affairs to complete a modern legislative framework for environmental protection and sustainable development, is considerable.

Progress in 1993-1994. USAID has contributed to a number of achievements in the environment, including the donation of \$500,000 to facilitate the purchase of the 62,000 hectare Mbaracayu Reserve in Eastern Paraguay and its establishment as a national park. USAID supported the development of a nationwide plan for protected areas under the Parks in Peril program. The plan, which identifies 44 existing and proposed protected areas, has been endorsed by the Paraguayan government and hailed as a model for other Latin American countries. Alternative economic activities, including agriculture, are being carried out in buffer zones of the Mbaracayu Reserve by Peace Corps volunteers and by the Moises Bertoni Foundation. USAID-financed awareness programs have targeted government extensionists, school children, religious leaders, teachers, congressional members, and the public. The Attorney General is involved in enforcing environmental laws, and the Public Prosecutor for the Environment has begun to crack down on poaching of wildlife.

Donor Coordination. USAID coordinates very closely with the United Nations, the Inter-American Development Bank (IDB) and Japan in the environment. With USAID encouragement, the IDB has begun the design of major loans in reforestation and agriculture diversification.

Constraints. USAID strategic objective assumes that achieving fully sustainable management of natural resources in Paraguay is not within its direct capacity. USAID expects, however, that it can contribute significantly to Paraguay's efforts within the 5 to 7 year timeframe of the objective. The term "management" in the objective statement encompasses both sustainable use of resources and conservation of biodiversity. Its achievement requires improvements in local institutional capacity in the near-term. Continued policy dialogue will be needed, as will activities to increase citizen awareness of environmental issues.

**STABILIZING POPULATION GROWTH . . . . . (\$ 4,060,000).**

**SO 3. Increased Use of Voluntary Family Planning Services (\$ 4,060,000).**

During the Stroessner dictatorship, the health sector was neglected and politicized. Services deteriorated, particularly family planning and maternal and child health. Today, Paraguay has a 3.2% population growth rate. Although the average number of pregnancies has dropped from 4.99 to 4.86 since 1982, less than one-third of eligible women of reproductive age have access to family planning services. A reduction in infant mortality from 86.4 to 47.1 since 1982 is over-shadowed by Paraguay's maternal mortality rate of 386 per 100,000, one of the highest in Latin America.

**Activities.** The USAID Mission plans several activities in support of national population objectives including expansion of access to services for couples. USAID, the Ministry of Health and local non-governmental organizations will expand the community-based distribution system, introduce reproductive health services for adolescents, and support male clinics for contraceptive services and other reproductive health needs. Additionally, the project will approve the technical and administrative capacity of family planning service providers through training in contraceptive logistics management, observation visits to exemplary family planning programs abroad, and clinical training to improve services for high-risk women.

**Related Activities.** USAID has helped the Ministry of Health improve its financial management and accountability. A computerized budget management information system is now installed in the Ministry and ready for use in other ministries. Over 100 health administrators have been trained in modern methods of management. In FY 1995, USAID will begin a second phase of assistance to improve family health services. Building on the initial work by the Ministry of Health, and in close conjunction with three state governments and Florida International University, the project will design and test new systems of decentralized health service delivery. USAID intends to use a local NGO to help spearhead the new project.

**Indicators.** To measure achievement toward this strategic objective, USAID has two major indicators: (1) increase in couple-years of family planning protection; and (2) increase in contraceptive prevalence.

**Feasibility and Cost-effectiveness.** USAID plans to obligate \$3.5 million for population activities in FY 1996 in support of three program outcomes: (1) expanded access to family planning; (2) strengthened institutional capacity to provide services; and (3) improved capacity for sustainability of services. USAID has funded a modern family planning program through the International Planned Parenthood Federation (IPPF) and other private organizations with the Paraguayan Center for Population Studies, which works closely with the Ministry of Health. USAID also has an ongoing project with the Ministry to improve management skills of health administrators. USAID intends to help the Ministry devolve greater responsibility for family health service programs to the regional and state levels.

**Progress in 1993-1994.** Since the coup in 1989, the Government's population policy has been pragmatic, and USAID has re-initiated active collaboration with the Ministry of Health in population and family planning. In terms of family planning, USAID has been the key donor in helping the Ministry of Health organize for improved service delivery. In 1994, a joint USAID/IPPF team conducted a population sector assessment which lays out a five-year program to help the GOP and private groups provide modern contraceptive methods to all eligible women on a voluntary basis.

**Donor Coordination.** Although USAID coordinates closely with the United Nations Fund for Population Activities (UNFPA) and the Pan American Health Organization (PAHO), the United States remains the largest and most active donor in population and family planning.

**Constraints.** In Paraguay, the process of decentralization is just beginning. The Ministry of Health has operated traditionally in a top-down approach to service delivery. Authority and resources have been centralized, leaving a fraction of the health budget for rural health services. Governors, mayors and local government are now a new factor in the development equation. The experience base is narrow, but there is political will to devolve carefully the direction of health and population services to the local level. The key will be the involvement of local government and citizens groups to ensure maximum participation and transparency in the use of resources.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH.....(\$913,000)**

**CROSS-CUTTING ACTIVITIES ..... (\$ 913,000)**

USAID will pursue a limited number of other activities that encourage economic growth, and which are

consistent with Agency economic growth priorities.

**Participant Training:** The USAID participant training program will continue to send the best and brightest from the public and private sectors for graduate training in economics, public administration and other specialties in the United States and neighboring countries. Since 1992, 17 participants have received graduate degrees at an average cost of \$ 30,000 each.

**Economic Policy Reform:** The Economic Policy project will continue with the Center for Economic Liberty and Social Justice, a local think-tank, which espouses a social market economic model for Paraguay, and which provides non-partisan economic policy advice to the government and private business. The Center is also analyzing the legal impediments to economic growth and other critical sustainable development issues.

**Housing Guaranty (HG):** Working through the cooperative system and a consortium of private banks, the proposed \$10 million HG will help address an unmet demand for 300,000 homes and will generate significant employment within the construction and housing industry.

**Decentralization of Health Services:** Building on the experience of the past three years with the Ministry of Health, and in conjunction with the local government activity, this project will test and implement new methods of health service delivery in selected municipalities.

**Other Donor Resource Flows**

In FY 1994, the United States, through USAID, Peace Corps and the Inter-American Foundation provided about 10% of bilateral assistance to Paraguay. Other donors include: the Inter-American Development Bank (IDB), the World Bank, Japan, Germany, the European Economic Community and Spain.

**PARAGUAY  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Strengthened Democratic Institutions				1,554,000	1,554,000
2. Improved Management of Natural Resources			2,758,000		2,758,000
3. Increased use of Voluntary Family Planning Services		4,060,000			4,060,000
Cross-cutting Issues: -Economic Policy Reform -Training -Low Income Housing -Decentralized Health Services	913,000				913,000
<b>TOTAL</b>	<b>913,000</b>	<b>4,060,000</b>	<b>2,758,000</b>	<b>1,554,000</b>	<b>9,285,000</b>

USAID Representative: Richard B. Nelson

**PERU**

<b>FY 1996 Development Assistance Fund Request:</b> . . . . .	<b>\$ 38,880,000</b>
<b>FY 1996 International Narcotics Control Fund Request:</b> . . . . .	<b>\$ 17,000,000</b>
<b>FY 1996 P.L. 480 Title II Request:</b> . . . . .	<b>\$ 42,997,000</b>

Assistance to Peru through the USAID directly supports United States interests in the region and the achievement of United States sustainable development objectives by countering the threat of the narcotics trade, promoting democracy and civil society, including the protection of basic human rights, expanding microenterprise and small business development, expanding access to and the use of basic health and population services, and protecting the environment. Peru faces significant social and political challenges, despite the optimism generated through recent Government of Peru successes in macroeconomic policy reform and economic stabilization. Income distribution indices in Peru are some of the worst in the world. Underemployment and unemployment affect some 80% of the economically active population, particularly women. Approximately 53% of the 23 million Peruvians are classified as poor, with income levels insufficient to cover a minimum consumption basket of basic food and related commodities. Moreover, the agenda which Peru faces in overcoming the legacy reflected in the seizure of power on April 5, 1992, in bringing about fundamental political reforms, judicial independence and observance of human rights, is a highly complex one. Continued USAID assistance is vital if Peru is to achieve its targets in the areas of strengthening democracy, health and population, and economic growth. Through our efforts in these areas, the people of the United States will have made a direct contribution to the political, economic, and social well being of Peru's poor majority, while simultaneously slowing the rate of immigration and illicit drugs to the United States, creating a stable, democratic society and expanding market for United States goods and services.

**The Development Challenge.**

Geographical barriers, the continuing threat of terrorism, narcotics trafficking, and the effects of previous disastrous economic policies and widespread corruption pose significant challenges to United States and other international donor efforts in assisting Peru to become a modern state. Since 1990, the Peruvian economy has improved dramatically. Hyperinflation, climbing as high as 7,500% in 1990, has been reduced to a current annual rate of between 10% and 15 %. Real GDP growth has exceeded expectations, reaching 7% in 1993 and ascending to 12.5% in 1994. Peru's privatization process, among the most successful in the world, has generated revenues in excess of \$3 billion to date, with an additional \$3 billion expected from the sale of remaining state-owned enterprises. The country's privatization program has spurred greater international investment, estimated to have increased by \$4 billion in 1994. The Peruvian stock market is currently the second most profitable in the world. More importantly, Peru has achieved full financial reinsertion with major multilateral lending institutions, resulting in planned commitments from the International Monetary Fund, Inter-American Development Bank and World Bank of approximately \$2.5 billion over the 1994-96 period. The resolve of the Government of Peru to build upon recent successes presents the United States and the international donor community with a historical opportunity to make the investment needed to ensure enduring peace and stability in Peru and the region. Overriding concerns throughout USAID's program are poverty alleviation and the reduction of the grossly uneven distribution of income and wealth which still characterizes the Peruvian economy, consolidation of democracy and institutionalization of reforms carried out to date.

**Strategic Objectives (SOs).**

USAID is currently pursuing three strategic objectives: 1) strengthened democratic institutions that promote popular participation, sustain individual rights and freedoms, and are transparent and responsive to their constituents; 2) broader-based, sustainable economic growth; and 3) improved health of high-risk populations through access to and use of quality, sustainable primary health care,



including increased community involvement. However, USAID's strategic framework is currently being revised to broaden and expand efforts in counternarcotics, improve the food security of the extremely poor and to improve environmental and natural resources management. The proposed changes to USAID's strategic framework also respond to Peru's changing needs and United States opportunities to leverage additional, significant reforms.

**BUILDING DEMOCRACY (\$9,932,000 of which \$8,896,000 INCF and \$1,036,000 DAF).**

**SO 1. Strengthened democratic institutions that promote popular participation, sustain individual rights and freedoms, and are transparent and responsive to their constituents (\$9,096,000 of which \$200,000 is DAF and 8,896,000 INCF).**

A critical element in a functioning democracy is popular participation. Participation in a modern state requires an institutional base and electorate capable of productive dialogue. It also requires an environment that supports public dialogue on a broad range of issues, including human rights and the need for judicial and legislative systems that respect due process and the rule of law. Although these factors need to be further improved upon, the ongoing resolution of the dual problems of narco-terrorism and severe poverty creates a favorable environment for the development of improved channels of communication between government and civil society. USAID will attempt to address several areas of importance through their strategic objective, including: (1) strengthening of democratic systems of governance that empower both Peru's citizenry to express its needs and its government to effectively respond to them; (2) the need to strengthen the administration of justice and the rights of the accused within internationally accepted standards of due process of law; and (3) increasing the institutional capacity of local governments.

Activities. The recently completed administration of justice project has facilitated a variety of major United States Government initiatives, contributing to a more efficient and independent judicial system. Concrete achievements include: the design and pilot testing of a fully automated case tracking system to monitor and expedite the due process of law, the provision of training to assist in the planned transition to a modern accusatorial system, and the design and operation of the new Office of the Court Administrator.

Several projects authorized at the end of FY 1994 will contribute to the achievement of this objective. These include: judicial strengthening (a bridge project) which will finance activities that protect human rights and promote due process protection; participatory democracy, with its three main components - civic awareness, public accountability and electoral systems -- aims to strengthen democratic systems of governance; elections support that will promote fair and transparent national elections scheduled for April 1995; and local government development which, capitalizing on the pilot-work initiated under the Upper Huallaga area development project, will equip selected local governments with the necessary training, technical assistance and financing for community-based activities so that government officials and citizens can successfully affect decentralization.

Through USAID's continuing support of Peru's Center for Education and Information on Drug Abuse Prevention, over 75% of the Peruvian population now wants to eradicate the drug problem. Increased public awareness led to the development of a national plan on drug prevention and control.

Related Activities. The USAID special development activities fund has provided support toward greater popular participation by the traditionally disenfranchised and marginally urban and rural poor. It has provided a vehicle for support to grassroots organizations with an impact beyond its modest \$200,000 per year funding level. Also, the Peruvian peace scholarship program supports this objective by providing training to leaders and potential leaders in various technical and leadership areas. By emphasizing support to the socially and economically disadvantaged, it provides a means to increase the effective participation in civil society of another forgotten segment of the population.

Indicators. USAID indicators for measuring progress towards achieving this objective are: (a) increased popular perception of the effectiveness and independence of the judicial system and (b) increased popular perception of the responsiveness and efficiency of local governments.

Feasibility and Cost-effectiveness. Against the backdrop of multiple models of democracy emerging throughout Latin America, Peru stands out as a difficult case. The early 1980s saw democratic evolutions which since have turned out well for populations from Mexico to Argentina. In Peru, it was characterized by a decade of social and economic disaster. Although the 1992 seizure of power was a temporarily undemocratic solution in response to the total economic and political turmoil. The Government of Peru's attention is now clearly turning to the full restoration of democracy, and USAID and other donor assistance will be targeted to reenforce and sustain this positive trend. USAID's investment of \$4.0 million in FY 1996 will help to promote stronger democratic institutions and secure wider citizen participation in selected public institutions and local and national governance to ensure their openness and transparency, public accountability and responsiveness.

Progress in 1993-1994. Important steps towards a more independent and efficient judicial system have been the establishment of an automated judicial case tracking system and recent creation of the Judicial Academy and the Judicial Council, incorporated into the 1993 Peruvian Constitution. Similarly, activities aimed at building national consensus on key civic issues made possible the inclusion of a statement in the new Constitution which firmly establishes the Government of Peru's commitment to fight illicit trafficking of drugs. Through the Lima Bar Association, USAID implemented a pilot civic education program in marginal urban areas of metropolitan Lima. The program purpose was to stimulate changes in behavior deemed necessary for elevating civic awareness levels among children (K through secondary school) and teachers. In the field of human rights, USAID, through its technical support to the National Registry of Detainees, has made possible the creation of the registry, which now provides public access to the majority of the population living in the province of Lima (approximately 30% of Peru's inhabitants) and its expansion to rural provinces over the next 12 months. Pilot activities developed with rural municipalities have validated the concept that democratic community involvement strengthens confidence in the government and promotes a more efficient use of public resources.

Donor Coordination USAID continues to be the major participant in the activities that support this objective. USAID also has been in the forefront of fomenting donor coordination in the elections area, having sponsored several meetings and informal communications with other donors. Donor coordination in other democracy areas may increase as other donors become more involved in this sector and with the arrival of a World Bank representative.

The World Bank has financed numerous studies and conferences in support of the Ministry of Justice (\$700,000). The IDB, with support from the Japanese Government, has provided technical and computer support to the Peruvian legislature (\$2,800,000). And, the United Nations Development Program has supported the elections system for the last two years with a limited amount of technical assistance (\$200,000).

Constraints. Peru has made considerable progress in combating terrorism and has revitalized the economy through very difficult macroeconomic reforms and austerity measures. It now faces two major problems: the need to strengthen the existing democratic institutional base and build an electorate capable of productive dialogue on key developmental issues. Under this strategic objective, USAID will address the lack of widely held civic values and understanding of political processes required for informed and effective participation in a democracy.

USAID also addresses Peru's efforts in building democracy through activities described in SO2, below.

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$21,560,000 of which \$13,456,000 DAF and \$8,104,000 INCF).**

**SO 2: Broader-based, sustainable economic growth** (\$18,786,000 of which \$12,988,000 supports Encouraging Economic Growth, \$4,962,000 supports Protecting the Environment, and 836,000 for Building Democracy).

Although Peru has initiated steps to enhance economic growth, more needs to be done. Indices of under- and unemployment (80% of the economically active population), severe poverty (53% of the households), and malnutrition (35% of children under five) are still alarmingly high. By increasing agricultural productivity and rural employment through improved production technologies, more efficient marketing mechanisms, and greater support to microenterprises, USAID will have a sizable, direct impact on increasing rural incomes and improving the nutrition of populations in need, while simultaneously enhancing the performance of the other two strategic objectives.

Activities. USAID's support to broad-based, sustainable economic growth follows three mutually reinforcing initiatives: (a) expanded opportunities and participation by low-income groups, especially microentrepreneurs, women and small farmers, in an outward-looking market economy; (b) improved targeting of safety-net programs oriented towards employment and food security; and (c) policy dialogue for improved economic and social policies focused on the rural sector, where the poorest populations live.

A focal point, reinforced by the recent declaration of principles following the December 1994 Summit of the Americas, is the need to broaden and strengthen the counternarcotics effort, recognizing the enormous social cost and negative economic consequences of illicit drugs to society. Peru is the largest world producer of coca leaf, supplying approximately 70% of the leaves required to meet world demand for cocaine. USAID's \$44.0 million alternative development project addresses the problem directly by providing legal income-producing opportunities and basic services for residents of coca-growing and outmigration areas. The goal of USG assistance is to reduce the extent of coca cultivation, thereby reversing the serious economic, political, social and environmental consequences of coca production and trafficking for Peru and reducing the amount of coca leaves available for export to the United States.

USAID's flagship microenterprise and small producers support program is designed to increase the economic participation of the poor and their grassroots organizations in the economy. This program has been enormously successful in identifying products and services with market demand, in establishing business linkages, and in providing technical assistance to improve productivity, thereby increasing incomes and employment.

Both the P.L. 480 programs and the Private Voluntary Organization support project all focus on expanding opportunities and participation of low-income groups in the economy through activities to stimulate income growth and employment opportunities of small farmers and microentrepreneurs, to increase productivity through technology transfer, and to improve marketing in the poorest areas of Peru, including coca-producing and outmigration zones.

Support for improved targeting of safety-net programs occurs primarily through the distribution of P.L. 480 Title II supplementary feeding to nutritionally vulnerable groups, the promotion of integrated interventions to improve primary health services to at-risk families via the PVO support project, and a microenterprise and small producer anti-poverty lending component designed to service the credit needs of poor women.

The policy analysis, planning and implementation project supports a broad agenda of analysis, dialogue and reform of economic development and growth policies with the Government of Peru. The project has undertaken studies resulting in tax simplification procedures, a program to counter tax evasion, and enactment of legislation reducing transaction costs (procedures simplification to register contracts and property titles and microenterprises).

The Title III program has had a direct impact on improved food security through support of agricultural sector policies related to the reduction of import surcharges on agricultural commodities, privatization of agricultural marketing and research and extension, passage of seed and water laws, and greater access by small farmers to rural finance. The FY 1995 sustainable natural resources management project also will sustain policy dialogue related to urgently-needed environmental and natural resource regulations and implementation practices.

Related Activities. Other USAID projects such as the employment and natural resource sustainability project, the integrated pest management project, the environmental support project, and the new sustainable natural resource management project contribute to the achievement of this objective by improving the conservation and sustainable use of natural resources essential to broad-based sustainable economic growth. Training conducted in the United States under the Peruvian peace scholarship program exposes microentrepreneurs and young business leaders to new ideas and values, while training provided under the local government development project for municipal government personnel and locally-elected leaders should strengthen their ability to provide more responsive government and improved community infrastructure and services. Mission health projects (child survival, project 2000 and maternal health) also contribute to this objective by promoting decentralized management of health services, income-generation activities to finance maternal health services, and lowering infant mortality rates.

Indicators. USAID indicators for measuring progress towards achieving this objective are: (a) gross domestic product per capita, (b) value of consumption of the poorest 40% of the population (as a proxy for income), and (c) reduced coca production in project-assisted areas.

Feasibility and Cost-effectiveness: USAID will invest \$30.0 million in the alternative development project. The economic analysis of infrastructure, agroindustry and agricultural activities of the alternative development project all show high, positive internal rates of return. The social benefits of community development actions are also high: it is estimated that the project will benefit some 54,000 people, and that improvements in education quality will benefit 14,000 students, with a per capita investment (per student) of \$14 per year. USAID Development Assistance investment of \$9.8 million in FY 1996, together with additional food assistance and Emergency Support Fund of \$76.2 million, will contribute to expanded economic opportunities for 3.2 million people by: (1) increasing small-scale businesses' and small farmers' access to markets and credit, thereby increasing their sales and incomes; (2) expanding agricultural technology transfer to small farmers through PVOs and non-governmental organizations (NGOs), thereby increasing yields; (3) supporting food assistance and emergency employment programs among the poorest populations, thereby providing the means to meet at least 10% of their basic income requirements; and (4) carrying out policy dialogue with the Government of Peru to reduce marketing constraints, expand rural credit, and to improve technology transfer, thereby improving the competitiveness of small farmers and microentrepreneurs. These areas of concentration are also priority for other international and bilateral donors.

Progress in FY 1993-1994. The Government of Peru has successfully carried out major economic structural adjustments which are leading to a rapidly growing economy. The Government is also committed to the eventual elimination of the coca industry as a source of employment and economic growth, as demonstrated by its use of limited police and military resources to combat the illicit production of coca. Moreover, from 1993-1994, the Government of Peru has provided roughly \$120.0 million of its own resources for road maintenance, credit, agricultural technology, and community development in alternative development areas and other jungle areas, with an additional \$60.0 million planned for 1995. Through the Title II programs, USAID has provided food assistance to 2.6 million people, or 20% of Peruvians living below the poverty threshold. Title II food-for-work activities have created jobs for 239,000 temporary workers while simultaneously building basic productive infrastructure for sustainable development to occur. USAID activities emphasize increased income-earning opportunities of low-income groups. USAID-funded training has increased sales of apparel and jewelry microenterprises by \$6.0 million and generated 1,220 new jobs. Recent microenterprise and

small producer intensive courses on improved product design in handicrafts has resulted in significant levels of sample orders from the United States, principally benefiting indigenous populations. USAID assistance has enhanced capital access, management, technical and business skills to 6,000 people, helping them to establish new or maintain existing microenterprises.

Donor Coordination. United States counternarcotics efforts will be an element of more comprehensive multi-donor support. Already, Government of Peru decisive initiatives to deal with Peru's economic, social, security and narcotrafficking problems have facilitated other donors' decision to provide assistance in support of its efforts. Major infrastructure restoration and improvement projects, necessary to facilitate the production and marketing of legal crops, are underway or in the planning stages, with other donor financing. Other donors active in agriculture and natural resource development are Food and Agriculture Organization, Inter-American Development Bank, Interamerican Institute of Agricultural Sciences (IICA), United Nations Development Program, European Union (EU), World Food Programme (WFP), Cartagena Board and bilateral donors such as Canada, Holland, Germany and Japan. The Permanent Committee on Food Assistance, chaired by WFP and composed of representatives from USAID, the EU, Canada, Japan, France, Holland, Italy and Spain, meets monthly to share information on donor food assistance programs and to discuss Peruvian feeding priorities. Frequent working sessions are held with visiting World Bank and IDB project preparation and sectoral analysis missions on subjects dealing with Peruvian agriculture, natural resources and environment, economic growth, and rural finance.

The World Bank is currently implementing a five-year, \$150.0 million project to rehabilitate Peru's road network and a \$150.0 million project to improve and privatize Peru's power-generation system. It plans to approve and implement a \$150.0 million project to improve feeder roads during the 1996-1999 period. USAID will encourage the Government of Peru to include important feeder roads located within the watershed where the alternative development project will be implemented. The Inter-American Development Bank is currently financing similar road projects, and is in the planning stages for a \$50.0 million irrigation project and \$150.0 million transportation sector project, which includes institutional strengthening, road rehabilitation and maintenance and railway privatization and maintenance. The German government has implemented various bilateral, alternative development-related projects and is currently designing a three-year, \$90.0 million alternative development project focussed on rural irrigation. Other donor financing includes unknown amounts from the United Nations Drug Control Program, European Union (EU) member countries, the EU itself, the Chinese government and several NGOs involved in small reforestation projects. Therefore, this objective addresses not only economic growth, but also the environment.

Constraints. The major constraint to achieving this objective is the lack of a Government of Peru medium-term development plan which prioritizes Peruvian public sector investments targeted at the large disenfranchised rural sector of the population. Limited market access, resulting from an inadequate internal road system and the lack of up-to-date market information (especially in the highlands), constrains broader participation in the country's market economy. The lack of a viable rural financial system to fund agricultural and microenterprise activities results in limited income and employment-generation possibilities.

This strategic objective addresses both economic growth and environmental protection.

#### **STABILIZING POPULATION GROWTH (\$19,426,000).**

**SO 3. Improved health of high-risk populations through access to and use of quality, sustainable primary health care, including increased community involvement (\$27,998,000 of which \$8,572,000 supports encouraging economic growth and \$19,426,000 supports stabilizing population growth).**

The broad-based economic growth described above is inextricably linked with declines in fertility and improvements in health and nutrition. If population growth exceeds gains in economic growth, for

example, per capita income will decline. Also, healthy people can better work to improve the quality of their everyday lives, as well as contribute more forcefully to national development. Conversely, broad-based growth can help income become more evenly distributed, allowing more families to provide for their own health care through the private sector, thus reducing the strain on government services that is characteristic of poor countries.

USAID chose this strategic objective because: targeting high-risk populations, which are principally poor populations, makes actions more cost-effective; primary health care is an umbrella term that features family planning as a prime component, in addition to other basic elements of health and nutrition; and an explicit focus on increased community involvement empowers families to take control of their lives, including the number of children they bear, thereby lowering program costs and ensuring ultimate sustainability of actions.

Although Peru has made advances in fertility decline and in health over recent years, dramatic imbalances exist between income groups and geographic regions. The average number of births per woman, for example, is 6.2 in rural areas, compared with 2.1 for Lima. Accordingly, the USAID strategy is to focus on peri-urban and rural areas, where needs are greatest and where further gains must occur if national fertility rates are to continue to improve.

Similar imbalances exist in mortality rates for infants, children and women. Further, some 37% of children under the age of five suffer from chronic malnutrition or stunting (defined as low height for age). This figure has not improved over the last decade. In addition, the current major contributor to infant and child mortality is acute respiratory infection. USAID activities target both of these problems.

Activities. In FY 1995 the USAID will start a new project, maternal health in the community. Its purpose is to increase the use of family planning in the rural and peri-urban areas where high fertility has prevailed, despite indications that women wish to limit births. The project, which will operate in six of the poorest regions that the USAID has defined as high priority, will empower women to identify and mobilize resources to address their health. While the program works with the nongovernmental sector to promote demand and offer community-level services, Project 2000 supports the Ministry of Health's service delivery network, to which many women should be referred for clinic-based family planning methods.

Further reductions in fertility will be obtained through USAID's continued support to population projects currently being implemented through the commercial and non-profit sectors. The commercial family planning project increases access to family planning information and methods through such commercial channels as pharmacies and generates demand for all services through information campaigns. The private voluntary family planning service extension project provides services through five indigenous private and voluntary organizations.

USAID is targeting its health and nutrition activities on maternal and perinatal mortality, acute respiratory infections, chronic malnutrition, and more efficient management of public sector health activities. This is being done through the health and child survival components of Project 2000, which builds on the gains in vaccine-preventable and diarrheal diseases of a previous project to focus on the current threats to maternal and child health, as well as to undertake critically needed reforms in management and financing in the public health sector. Again, the activities are in the regions that USAID has defined as high priority, and in full consideration of the areas of action of other donors.

Finally, the strengthening health institutions project supports the establishment of self-sustaining, private sector, primary health services in three poor areas, as a model for later integration by the public sector. The model includes provision of care by existing nongovernmental organizations and the establishment of a chain of centers to be operated by communities.

Related Activities. The achievement of this strategic objective is likewise furthered through USAID

activities that address nutrition rehabilitation. Principally, these are food programs that are funded under Title II of P.L. 480. In addition to providing needed food to address short-term needs, these programs seek to identify at-risk children before they become seriously malnourished and also encourage families to use basic primary health care services, such as family planning, immunization, oral rehydration therapy and breastfeeding, as a way of both controlling and preventing malnutrition.

Indicators. The chief indicators of progress toward achievement of this strategic objective are: (1) the total fertility rate, which refers to the average number of births per woman at one point in time; (2) the infant (1-12 months) mortality rate and the child (1-5 years) mortality rate, which refer to the number of deaths in each age category per 1,000 infants or children; and (3) the chronic malnutrition (stunting) rate, which expresses height for age and reflects long-term malnutrition that results from nutritional insults in the first months and years of life. Chronically malnourished children turn into short adults and can suffer other developmental effects. Other important indicators are the perinatal mortality rate, which refers to infant deaths within the first month of life, and the maternal mortality rate, which refers to deaths to women during pregnancy, childbirth or the post-partum period, per 100,000 live births.

Feasibility and Cost-effectiveness. These activities have been shown to be both feasible and cost-effective in developing countries: family planning, immunizations, breastfeeding promotion, oral rehydration therapy, prenatal care and similar primary health care interventions. Numerous studies by USAID, the World Bank, United Nations Children's Fund, the Rockefeller Foundation and other development organizations that define policies and strategies have identified key primary health care interventions as the most cost-effective ways to reduce fertility, mortality and morbidity in USAID-assisted countries. USAID's FY 1996 investment of \$18.0 million in the population sector will be more than offset by savings to the Government of Peru in terms of decreased calls on resources for education and health care and a greater ability to generate employment for its population.

Progress in 1993-94. Infant and child mortality have decreased substantially during the past decade, as has fertility. Activities supported by the USAID during 1993-1994 have supported that trend. For example, immunization coverage, perhaps the single most cost-effective measure against infant and child mortality, reached over 85% in 1993 and 1994. In August 1994, Peru was declared polio-free, enabling the Americas to be the first polio-free region in the world. Adequate clinical treatment and the use of oral rehydration therapy contributed to an extremely low fatality rate (hovering under 1%) in the cholera epidemic over the past three years. The downward trend in fertility continues to be supported by extensive training programs, technical assistance and the provision of family planning commodities. Ninety-six% of married women aged 15-49 know about modern contraception, 83% of them have used a method at least once, and contraception use has increased to 59%.

Donor Coordination. USAID coordinates actively with other donors. To facilitate daily coordination, project staff from the three large health and population projects (USAID, World Bank, IDB) are all housed in the same quarters at the Ministry of Health. Secondly, the World Bank and the IDB are charter members of an Inter-Agency Coordinating Committee established and supported by USAID and chaired by the Minister of Health. This coordination has resulted in a geographic division of labor between USAID and the World Bank, as well as some modifications in programming that avoid any possible duplications and promote synergistic effects. Other donors becoming more active in Peru are the United Kingdom, the Japanese Government and the Ford Foundation; USAID coordinates actively with all of them. On a technical level, USAID also coordinates with the Pan American Health Organization and UNICEF, which implement activities in population and health, particularly child survival.

USAID was the major donor in the population and health field during 1987-1993, a time when the multilateral banks withdrew from Peru. USAID is still far and away the leading donor in population. United Nations Population Fund (UNFPA), the other donor in population, has a modest portfolio valued at \$3 million. The World Bank and the Inter-American Development Bank are currently financing health

projects that have recently begun implementation; including counterpart contributions, these projects are valued at some \$140 million. The entire USAID portfolio described above has a value of some \$96 million.

Constraints. Inadequate services and infrastructure, insufficient and often delayed Health Ministry budget allocations, and frequent changes in decision-makers because of turnover in political appointments can all delay project implementation and impede the sustainability of project activities. Also, while there have been no direct effects on family planning services of the International Conference on Population and Development in 1994, the incumbent party and presidential candidate in the forthcoming national elections have not taken advantage of opportunities, both those supported by the USAID and others, to declare publicly positions on population and family planning.

## **PROMOTING HUMANITARIAN ASSISTANCE**

USAID activities supporting humanitarian assistance are integrated into SO2 and SO3 as discussed in the corresponding sections above.

**Other Donor Resources.** In FY 1993, the United States provided 14% of the top five other donor assistance level. German and Japanese assistance accounted for about 50% of that amount.



PERU  
FY 1996 PROGRAM SUMMARY

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democrac y	Providing Humani- tarian Assistance	Total
<b>USAID Strategic Objectives</b>						
<b>1. Strengthened Democratic Institutions</b>						
Dev. Assistance Fund				200,000		200,000
International Narcotics Control Fund				8,896,000		8,896,000
<b>2. Broader-Based, Sustainable Economic Growth</b>						
Dev. Assistance Fund	4,884,000		4,962,000	836,000		10,682,000
International Narcotics Control Fund	8,104,000					8,104,000
<b>3. Improved Health of High-Risk Populations</b>						
Dev. Assistance Fund	8,572,000	19,426,000				27,998,000
<b>Cross-cutting Issues</b>						
PL 480 Title II					42,997,000	42,997,000
<b>Total</b>	<b>21,560,000</b>	<b>19,426,000</b>	<b>4,962,000</b>	<b>9,932,000</b>	<b>42,997,000</b>	<b>98,877,000</b>

USAID Mission Director: George Wachtenheim

## CENTRAL AMERICAN REGIONAL PROGRAMS

**FY 1996 Development Assistance Fund Request: . . . . . \$17,870,000**

Current conditions in Central America present an extraordinary opportunity for the U.S. Government to support efforts to achieve sustainable development in the entire region. U.S. interests are served by Central America's expanding economic relationship with the United States which eventually should lead to the region's participation in a hemispheric free trade arrangement. Today all the Central American governments have democratically elected presidents. However, the fragility of democratic movements and continuing social and economic inequities are some of the factors which have spurred flows of Central American migrants northward. Pressures to migrate will diminish when the region's nations can offer people improved employment opportunities through increased trade, more equitable societies, and greater citizen participation. Support for Central American efforts to protect the region's natural resource base is not only of U.S. interest, but is a global concern.

### **The Development Challenge.**

The Alliance for Sustainable Development, proposed by the Central American presidents and encouraged by President Clinton and Vice President Gore, is the key point of reference for USAID efforts in Central America. The Alliance establishes a framework for creative cooperation and shared responsibility among the Central American countries and their people, and with the international community. The United States became the first partner with the region with the signing of the CONCAUSA (Central America-USA Alliance) declaration at the Miami Summit in December 1994.

To move the region toward a free trade arrangement, further liberalization and integration of trade, fiscal, and monetary policies as well as improved environmental and labor standards for the region are needed. The regionwide environmental decline must be stemmed for the well-being not only for Central America but also for the world. Democracy still must be strengthened in the region by increasing citizen participation in the local decision-making process and devolution of authority to local governments.

### **Strategic Objectives (SOs).**

USAID is pursuing three strategic objectives and one target of opportunity in the Central American region where we can have a significant regional impact over and above bilateral initiatives alone.

### **ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$7,319,000).**

#### **SO 1. Increased Central American participation in the hemispheric economy (\$3,148,000).**

Even with recent gross domestic product (GDP) growth of 3% to 4 % annually across the region and an expansion of intra- and extra-regional trade, economic growth in Central America has not been sufficient to assure the social well-being of the majority of Central Americans, an estimated 54% of whom still live in poverty. Increased participation in the hemispheric economy is essential if Central America is to achieve sufficient levels of economic growth and generate sufficient employment to meet the needs of its population.

Activities. USAID supports activities that lead to greater regional preparedness for free trade negotiations and to increased regional economic integration. Policy reform activities are geared to improving the overall trade policy environment and establishing a complementary regional policy framework through upward harmonization of policies and more effective policy implementation. Areas targeted for reform include intellectual property rights, dispute resolution procedures, treatment of investment, labor rights and non-tariff barriers. Information dissemination activities are focused on

creating a regional consensus for change and supporting regional dialogue on key free trade reforms through seminars, periodic publications and in-depth analysis of policy issues.

Related Activities. Bilateral USAID trade and economic policy reform efforts strengthen and complement activities under this objective. On a regional level, USAID's efforts to achieve environmentally sound natural resource management through the development of a regional policy framework also assist the region to prepare for free trade agreement negotiations and to establish the guidelines for sustainable resource use that are necessary for sustainable economic growth.

Indicators. USAID preliminary indicators for measuring achievement of this objective are: (1) increase in Central American trade as a percentage of total intra-hemispheric trade; and (2) increase in two-way trade with the United States.

Feasibility and Cost-effectiveness. Improvements in the policy environment and in policy implementation will provide the framework and enhanced institutional capacity required for sustainable regional economic growth. To ensure that policy changes are actually implemented, USAID is only targeting policies for which there is a clear regional commitment to move forward with reform. Past USAID experience demonstrates that success in this area is dependent upon close contact with the public and private sector, an ability to gauge commitment to reform and an assurance that the regional policy initiatives being supported are complementary and mutually-reinforcing to national-level reform efforts. All Central American governments have expressed their intent to foster freer trade and to prepare themselves for a hemispheric free trade area by 2005. Complementing this hemispheric commitment, the Central American governments have also agreed to move forward on regional economic integration as quickly as possible, since, as a region, they will be more competitive in the global market.

Progress in 1993-1994. USAID-supported policy reforms contributed to a more open trade environment and greater access to regional markets. This was demonstrated by an 18% increase in intra-regional trade in 1993, now totaling \$1.2 billion, and growing trade with the United States, the region's most important trading partner, which reached \$10.4 billion in 1993. To expand the technical capacity in the region, a network of private sector committees to analyze and establish positions on key issues related to free trade agreement accession (including labor standards, environmental protection, intellectual property rights, treatment of investment and rule of origin) was created. In preparation for an increased emphasis on regional economic integration, USAID supported the creation of a data-base cataloging presidential and ministerial level commitments in this area and their current status. In 1994, four of the six Central American countries approved the Central American Convention on Industrial Property, which increases regional trademark protection. Model regional agreements on rules of origin, unfair trading practices and dispute settlement procedures also were developed.

Donor Coordination. The two other major donors who have worked in this area are the United Nations and the InterAmerican Development Bank (IDB). Although neither has a current project, USAID continues to coordinate with both donors to leverage resources and ensure complementary objectives in the design of new initiatives.

Constraints. A weak regional institutional framework, lack of sufficient resources and the difficulties inherent in working with six countries often with different agendas and levels of development constrain rapid progress in this area. However, with the renewed Central American commitment to establishing a free trade area in the hemisphere by 2005 and the accompanying increased attention on regional trade issues and regional institutions, these difficulties should be diminished.

Moreover, USAID will also address economic growth through activities to control the spread of HIV/AIDS (\$4,171,000) in the Central American Region. This is discussed in more detail as a cross-cutting issue, below.

## **PROTECTING THE ENVIRONMENT (\$5,927,000).**

### **SO 2. Environmentally Sound Management of Natural Resources (\$5,927,000).**

In the management of its natural resource base, Central America is at a critical juncture between irreversible depletion and an opportunity to slow down resource degradation. Despite encouraging signs, including improved public awareness of environmental issues, increased donor attention and development of best management practices, overall environmental trends--such as loss of forested lands and pollution of coastal marine sources--continue to worsen. However, the first steps toward creation of both legal and administrative mechanisms to promote region-wide collaboration in biodiversity conservation and harmonization of environmental laws have already been taken by Central American leaders through the signing of an Alliance for Sustainable Development for Central America.

Activities. USAID currently works in partnership with Central American and U.S. institutions, to understand and reverse the serious deterioration of the natural resource base in the isthmus. The USAID regional office will work with USAID bilateral missions and regional institutions, national and local governments, international and local non-governmental organizations (NGOs) to establish a regional system of Central American protected areas and to develop a regionally harmonized framework for environmental legislation. The activities will complement bilateral USAID activities to field test and synthesize policy alternatives and methods of regional application.

Related Activities. USAID's regional environmental program is closely coordinated with its trade integration and local governance objectives, especially as they relate to urban pollution, pollution abatement, empowerment of local communities to manage their resources, and regionwide standardization and complementarity of laws and regulations.

Indicators. The indicators for measuring achievement of this objective include a reduction in deforestation and pollution trends, an increase in the number of protected areas applying internationally recognized park management standards, and the establishment of a harmonized set of environmental laws and regulations throughout the region.

Feasibility and Cost effectiveness. USAID will support natural resource management activities that demonstrate significant economies of scale, where lessons are learned and shared throughout the region. Models for delivering environmental services, information and new technologies will be tested and developed. The benefits of resource conservation and pollution prevention and abatement, as well as their positive impact on public health and sustainable income generation, will serve society immediately and in the longterm.

Progress in 1993-1994. Accomplishments under the environmental objective include: the incorporation on 14,700 farms of multi-use trees, reducing the need to harvest trees from protected areas; the widespread adoption of watershed and buffer zone management practices; increased compliance on the part of Central American non-traditional agricultural exporters with U.S. pesticide regulations; the initial adoption of integrated pest management techniques and resultant positive economic impact; increased farmer awareness of pesticide usage issues; 4,200 health care practitioners trained in treatment of pesticide poisoning; effective management plans advanced in national parks in Belize, Costa Rica, Guatemala and Honduras; and cooperative efforts between Belize, Guatemala and Mexico to protect the fragile forests and ecosystems of the Maya Biosphere region.

Donor Coordination. USAID is working closely with the Swedish Embassy in Guatemala City to coordinate current and potential future assistance to the Central American Development Commission. The IDB is considering a possible \$25 million environmental loan for the region which provides an opportunity to closely support and complement the environmental protection activities of USAID's regional strategy. USAID will continue to advocate the biological corridor concept promoted by the regional strategy, coupled with the promotion of a participatory process for environmental decision-

making, has the potential to provide the conceptual framework for linking and leveraging other donors' environmental programs in the region.

Constraints. Several obstacles to the achievement of this objective continue to exist in Central America, including political instability, continuing population growth, and migrations to cities and agricultural frontiers. Migration to the urban centers exacerbates pollution of all kinds at an accelerating rate, while migration to the remaining agricultural frontiers places in immediate jeopardy the establishment and maintenance of conservation areas, as well as the rational orderly use of existing available resources.

## **BUILDING DEMOCRACY (\$1,865,000).**

### **SO 3: More effective and democratic local governance (\$1,865,000).**

During the late 1980s and early 1990s, a trend towards decentralization emerged in Central America, and the region's leaders began to acknowledge the importance of political, administrative, and fiscal empowerment of local governments as a vital instrument in effectively delivering services to citizens and consolidating democracy. USAID is directly promoting and supporting this trend by facilitating the formulation and implementation of a regional policy reform agenda to enable the region's municipal sector to generate the political consensus to transfer authority and control over financial and human resources from central to local governments.

Activities. USAID assists the Central American Federation of Municipalities (FEMICA) to carry forward a regional policy reform agenda to generate the political will and consensus in the region on key decentralization issues, processes, policies, priorities and problems to demonstrate effectively how autonomous local governments can be responsive to citizen needs. Based on identification of constraints to decentralization and local government autonomy, specific problem-solving activities that promote replicability are carried out in one or more countries. With supplementary Housing Guaranty (HG) resources, the Central American Bank for Economic Integration (CABEI) is developing a market-based credit facility to strengthen the financial independence of local governments by encouraging private and public financial intermediaries to lend to local governments for environmentally sound urban infrastructure projects, such as water, sewage and solid waste.

Related Activities. Since local governance and decentralization are cross-cutting concerns, pilot activities such as the devolution of education and water services to municipalities are having an important spread effect on administrative structures and delivery mechanism for such areas and sectors as education, health, and the environment.

Indicators. USAID performance indicators for measuring progress toward achieving this strategic objective are: (1) the cumulative number of countries with local governments empowered through the passage of decentralization legislation that devolves political, administrative and fiscal authorities to municipalities; and (2) the percentage of citizens in the region participating in the local government affairs as measured by omnibus opinion polls and analyses.

Feasibility and Cost-effectiveness. As democracies have returned to Central America and the direct election of mayors are becoming commonplace, local governments are slowly developing a political constituency among a diverse range of political parties that is conducive to policy and structural reform in this area. With issues of decentralization and local governance an important focus of the larger Central American integration process, USAID-financed interventions aimed at strengthening the combined efforts of the region's municipal sector to promote policy and structural change are well-received and cost-effective.

Progress in 1993-1994. A policy and program agenda, developed by FEMICA on decentralization and local government strengthening, was adopted and ratified by Central American regional institutions,

municipal associations, political party representatives, legislators, central government agencies, NGOs, and donors in 1994. Implementation of the policy and program agenda has begun in Guatemala, El Salvador, Nicaragua and Costa Rica. Through effective lobbying efforts, property tax legislation was recently passed in Guatemala and is under consideration in El Salvador and Nicaragua. Due to the efforts of FEMICA and the Municipal Association in Costa Rica, a complete overhaul of the municipal sector is being proposed by a legislative commission. Nicaragua is pilot testing the devolution of primary and secondary education to the municipal level, and El Salvador is pilot testing the devolution of the national water authority to six municipalities in the formerly conflictive zones. Finally, the regional credit facility in CABEL is now being marketed to local lenders and municipalities to finance infrastructure investments.

Donor Coordination. USAID jointly sponsored an Interamerican Mayors Conference with the World Bank, IDB, and the Organization of American States (OAS) in November 1994. As a result of the meeting, the multilateral donors came to a common understanding of the types of policy issues that need to be addressed in effectively empowering local governments to be responsive to their constituents in Central America. Simultaneously, USAID is coordinating with bilateral donors such as the Spanish, Germans and French in addressing technical assistance and training needs of specific municipalities in the region.

Constraints. The primary constraints hindering the accomplishment of this strategic objective have been the centralized government tradition and the lack of sufficient and timely resources to maintain the momentum generated by the Central Americans in defining and promoting an effective policy and program agenda pushing decentralization and local governance issues in favor of consolidating democracy in the region.

#### **CROSS-CUTTING ISSUES (\$6,930,000).**

**Control the Spread of HIV/AIDS in Central America (\$6,930,000 of which \$4,171,000 is for Economic growth and \$2,759,000 is for Stabilizing Population Growth).**

The HIV/AIDS epidemic has become well established in Central America, with both the heterosexual population and vertical transmission (from mother to unborn or newborn child) increasing since 1987. This is in part due to Central America's long history of migration which has increased in recent years due to the demand for seasonal labor, regional economic integration, civil unrest, open border policies and improved transportation routes. The HIV/AIDS epidemic now poses a serious threat to the future political, economic and social development of Central America. Economically productive young adults are hardest hit by HIV/AIDS. The areas most likely to be affected by HIV/AIDS in the future include worker productivity, medical care costs and the size of the work force.

Reversing the trends in AIDS infection in Central America depends on educating and mobilizing political and public health forces to recognize the severity and complicated social and clinical nature of the disease. Based on worldwide experience, a three-pronged approach of policy awareness and public education, social marketing and NGO strengthening, is the most promising strategy to slowing the pace of the epidemic. The regional niche for providing assistance in this area will focus on specific sub-regional commonalities and cross-border transmission. By mobilizing Central American resources and providing technical assistance to enhance the quality and coverage of prevention services, USAID regional HIV/AIDS activities will make a significant and sustainable contribution to controlling the epidemic.

#### **Other Donor Resource Flows.**

The other major donors providing support to the region are the United Nations agencies, the European Union, and the Inter-American Development Bank. The Central American Economic Cooperation Plan

of the UN, funded at \$114.3 million for the 1994-1996 period, is the largest single program directed towards the region as a whole. USAID assistance implemented under the Central American Programs portfolio totaled \$15.3 million in FY 1993 and \$7.2 million in FY 1994.

**CENTRAL AMERICAN PROGRAMS  
FY 1996 PROGRAM SUMMARY**

	Encouraging Economic Growth	Stabilizing Population Growth	Protecting the Environment	Building Democracy	Total
USAID Strategic Objectives					
1. Increased Central American Participation in the Hemispheric Economy	3,148,000				3,148,000
2. Environmentally Sound Natural Resource Management			5,927,000		5,927,000
3. More Effective and Democratic Local Governance				1,865,000	1,865,000
Cross-Cutting Issues					
HIV/AIDS	4,171,000	2,759,000			6,930,000
Total	7,319,000	2,759,000	5,927,000	1,865,000	17,870,000

USAID Mission Director: William Stacy Rhodes

## LAC REGIONAL PROGRAM

**FY 1996 Development Assistance Fund Request.....\$ 33,260,000**  
**FY 1996 Economic Support Fund Request.....\$ 27,550,000**

The stability and prosperity of the Western Hemisphere remain fundamental U.S. interests in the post-Cold War period. The Latin America and Caribbean (LAC) regional program supports the Agency's and primary goals of encouraging broad-based economic growth, building democracy, protecting the environment, and stabilizing population and improving health, as well as addressing cross-cutting development issues. The LAC regional program contributes significantly to specific U.S. Government foreign policy objectives in the region pertaining to trade, democracy and human rights, environment and population. The regional program supports various initiatives adopted by 34 countries including the United States at the 1994 Summit of the Americas. Three new projects being initiated late in FY 1995 in educational policy reform, networking of Hemispheric nongovernmental organizations (NGOs) working in civil society and civic education, and increasing equitable access to basic health services are in direct response to the Summit initiatives and should begin to make significant progress during FY 1996 in advancing U.S. objectives in the region. A fourth project supports Summit initiatives by advancing Hemispheric economic integration and trade liberalization.

### **The Development Challenge.**

The regional program complements other USAID and donor assistance seeking to strengthen political, economic and social changes taking place in the region. LAC's regional activities provide rigorous analytical support for USAID strategic planning, policy development, program design, implementation and evaluation. In addition, the LAC regional program implements a carefully selected portfolio of uniquely regional or Hemispheric development initiatives which cannot be effectively managed on a bilateral basis such as activities which address transnational problems and support regional institutions. LAC's regional activities encourage participation of, and seek to ensure benefit to all, citizens of the region, particularly indigenous groups and the poorest strata of the population.

### **Strategic Objectives (Sos).**

**ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$ 20,921,000, of which \$18,657,000 is DAF and \$2,500,000 is ESF).**

Broad-based economic growth based on open markets accessible to and benefiting all segments of society is key to achieving sustainable development. Expansion of open markets and increased access by small entrepreneurs and agricultural producers to those markets are major goals of the regional program in 1996.

Ensuring access to effective basic health and family planning services aimed at bringing these services to the vast majority of populations is a major focus of the LAC Bureau's program. Efforts are aimed at ensuring that quality health services are provided in a sustainable and equitable manner.

The regional program also promotes broad-based economic growth by supporting, with other donors, efforts to influence improvement in education systems in the region through policy reform.

### **SO 1. Advanced Hemispheric economic integration and trade liberalization (\$ 2,500,000 ESF).**

Thirty four elected heads of State at the Summit of the Americas recognized that "free trade and increased economic integration are key factors for raising standards of living, improving the working conditions of people...and better protecting the environment," and resolved to construct a Free Trade Area of the Americas (FTAA) by the year 2005 achieving concrete progress toward attainment of that objective by the end of the century. Despite consensus on broad steps to be taken to open markets,



smaller countries are not able to design and implement the necessary reforms without technical assistance. USAID, in coordination with other U.S. Government agencies, is providing assistance to smaller countries in the region to ensure full Hemispheric participation.

**Activities.** The regional program supports economic integration and trade liberalization through the free trade expansion project, which assists countries and the region in four program areas: (1) developing and implementing trade agreements for FTAA accession, (2) developing and liberalizing Hemispheric capital markets for investments, (3) expanding trade-enhancing infrastructure systems, and (4) supporting trade enhancing cooperation in science and technology.

**Indicators.** The following indicators will measure progress in achieving this objective: (1) adoption and enforcement of standards regulating trade, (2) modifications of financial instruments, (3) Hemispheric-wide coverage of basic trade-enhancing systems, and (4) research program funding for trade-enhancing activities.

**Feasibility and Cost-effectiveness.** Trade liberalization reforms depend upon political will to overcome short-term negative adjustments that face management and labor in uncompetitive industries. As USAID essentially plays a program-coordinating role and its activities are implemented through other U.S. Government agencies and NGOs responsible for advancing trade interests, USAID activities will be cost-effective.

**Progress in 1993-1994.** The new free trade expansion project will begin in late FY 1995. The project will track progress on the plan of action approved at the Summit of the Americas.

**Donor Coordination.** Project activities will be implemented in coordination with the programs of other donors, including the multinational banks and the Canadian International Development Agency, and with international and regional organizations, including the Organization of American States (OAS) and InterAmerican Institute for Cooperation in Agriculture.

**Constraints.** Trade liberalization exposes numerous industries as uncompetitive, and both management and labor could try to counter or slow efforts to open markets in selected countries.

**SO 2. Increased small entrepreneur and producer access to expanding Hemispheric markets (\$4,540,000).**

A second necessary condition to broad-based economic growth is full participation by all segments of society, particularly small entrepreneurs and agricultural producers. Equitable access to markets has been denied in the past and requires special action to ensure access to expanding factor and product markets.

**Activities.** The regional program supports increased access to markets by the poor through the sustainable microfinance, agricultural and natural resource management technical services, and poverty alleviation through land access projects. The projects provide or otherwise support (1) financial services for small entrepreneurs and small nontraditional agricultural export (NTAE) producers, (2) private property rights for small NTAE producers, and (3) NTAE production and market-access information systems. As Hemispheric market integration proceeds, attention will be directed to improving the education and health of the increasingly mobile Hemispheric labor force, to ensure sustained productivity, link wages with productivity gains, and advance labor standards and workers' rights.

**Indicators.** Indicators to measure progress in achieving this objective are: (1) increased flow of commercial capital to specialized financial institutions, (2) increased numbers of clear titles to small landowners, and (3) increased market share of NTAE exports by small producers' associations.

Feasibility and Cost-effectiveness. Evaluations have demonstrated that microenterprises, small businesses and small agricultural producers are competitive and can pay commercial interest rates, wages and rents on land. The problem facing small producers historically has been the relatively higher transaction costs for public and private firms doing business with smaller firms, with the result that resources were allocated by the market to larger producers and firms. The regional program will focus on those activities which, by virtue of technological progress (telecommunications, computerized banking, Global Positioning Systems/Geographic Information System based surveying and mapping, computerized parcel-based property registration), transaction costs can be reduced significantly, resulting in fully commercial market access by smaller firms which is not only feasible and more cost-effective but more environmentally sound.

Progress in 1993-1994. The strategy for making markets work for the rural poor was developed under the regional program and approved in late 1994. Most activities, therefore, are just being designed and starting implementation.

Donor Coordination. Activities are selected to test and demonstrate commercial viability and, as a consequence replication of successful activities will be primarily through private sector expansion. However, when replication is partially dependent upon concessional loan funds, coordination with the Inter-American Development Bank (IDB) and World Bank (IBRD) will be initiated.

Constraints. An economically viable and aggressive small firm sector in certain industries in certain countries will be viewed legitimately as a threat to the status quo. It may be expected that progress in some activities will be compromised for non-economic reasons. Assuming the underlying competitive advantage is with smaller firms, such constraints will be transitory.

**SO 3. Increased use of selected health interventions (\$ 5,452,000 of which \$5,342,000 is Economic Growth and \$110,000 is Population).**

Despite the drop in infant mortality in the LAC region, close to 600,000 infants still die each year before their first birthday, most from causes that could be prevented with simple, low-cost technologies. While vaccination coverage levels in LAC are generally excellent, pockets of low coverage and programs that are not yet sustainable exist. The region has recently adopted an ambitious measles-elimination goal. LAC target countries do not dedicate enough resources to controlling diarrheal disease, acute respiratory infections or HIV/AIDS, and the quality and effectiveness of those programs need improvement. There are also currently estimated to have been more than 2 million HIV-infected persons in the LAC region, with the number expected to reach 3 million by the end of the decade.

Activities. The regional program will provide technical assistance and training to enable target country programs to strengthen the quality and availability of selected health interventions (diarrheal disease control, acute respiratory infection control, vaccinations, and HIV/AIDS prevention). As a result of project activities, country programs will (1) implement improved norms for service delivery, (2) target resources to sub-national areas where help is needed most, and (3) increase the sustainability of key health services.

Indicators. Indicators which measure progress in achieving this objective follow: (1) increased use of appropriate case management of children's diarrheas, acute respiratory infections, and sexually transmitted diseases (STD), (2) increased vaccination coverage with final doses of all antigens, (3) improved knowledge, attitudes and practices concerning sexual transmission of HIV, and (4) increased access to and use of condoms.

**Feasibility and Cost-effectiveness.** The regional program seeks to produce a higher level of political commitment to high priority health programs and larger amounts of national resources dedicated by governments to those programs, particularly directed at increasing quality and impact. USAID resources will be focused on the most effective interventions, and the Agency will work closely with the Pan American Health Organization (PAHO) to influence national governments and other health providers to stress those interventions. Key health interventions selected are among those in the highly cost-effective package outlined by the World Bank in the 1993 World Development Report as a basis for investments in health.

**Progress in 1993 - 1994.** This strategic objective builds on prior success of vaccination programs in the Americas. Coverage with final doses of all vaccinations by age one has reached at least 78% regionwide. As a result of joint efforts with PAHO and other donors, the Americas have been declared free of indigenous transmission of wildpolio virus, and efforts have begun to eliminate measles from the Hemisphere.

**Donor Coordination.** The regional program will be carried out in close collaboration with PAHO and other donors, both regionally and in priority countries.

**Constraints.** The regional program will have to coordinate closely its efforts with other entities that work at different levels in the region, not only with governments but with private voluntary groups and commercial sectors. Implementing organizations also will need to work more closely together. Making this happen is difficult and time-intensive.

The LAC regional program also contributes to stabilizing population growth in the region.

#### **SO 4. Increased equitable access to basic health services (\$ 1,000,000).**

Equitable access to basic health services was agreed upon as an objective at the Summit of the Americas. Despite impressive gains in the Hemisphere, limited access to and quality of basic health services have resulted in persistently high child and maternal mortality, particularly among the rural poor and indigenous groups. At the Summit, heads of State endorsed ambitious child and maternal health objectives, including reducing child mortality by one-third and maternal mortality by half (from 1990 levels), a basic package of child and maternal health interventions and actions to develop or update country action plans or programs for reforms to achieve equitable, universal access to the basic package.

**Activities.** Major actions that were agreed to by the governments represented at the Summit were: (1) to endorse a basic package of personal- and public-health services and to develop plans for health reform; and, (2) to strengthen the Inter-American Network on Health Economics and Financing to conduct analyses, training, and technical assistance to support country reform efforts.

**Indicators.** The following indicators measure progress in achieving this objective: (1) increased number of countries adopting a basic package of personal- and public-health services, including child, maternal and reproductive health interventions; (2) increased number of countries that have begun to implement country action plans or programs for health reform; and, (3) increased use of the Inter-American Network for technical assistance and analysis.

**Feasibility and Cost-effectiveness.** All countries in the region have recognized the importance of universal provision of a package of essential health services in a cost-effective way, several have begun to implement such a package and all countries are seeking the opportunity to share their experiences and to learn from other countries. Development of the country plans is feasible in the near term, although complete health sector reform may take years to fully implement. USAID's experience demonstrates that utilizing existing organizations and networks and regular meetings constitute a feasible and cost-effective approach for providing a forum for discussing new ideas, informing decision-

makers, monitoring progress, and determining technical assistance needs. The proposed Inter-American Network activities include identifying and providing needed technical assistance

Progress in 1993-1994. Health reform activities have been under way in the region for several years, and are progressing at the country level with varying success. The Summit served to increase momentum for health reform and the Summit plan of action catalyzed agreement on the next steps.

Donor Coordination. At the regional level, the Inter-American Network receives support from PAHO and the World Bank. USAID, the IDB and other donors intend to support and work closely with them. At the country level, donor coordination is strongly encouraged and, in some countries, works quite well, particularly where USAID supports major health reform activities.

Constraints. As experience in the United States demonstrates, health reform is not an easy process. Special interest groups, the private sector, communities and civil servants all have an interest in the outcome of this process and often lobby to maintain the status quo. Reaching agreement on what should be included in the basic health care package, how services should be delivered and financed, and who should be providing services will be difficult issues on which to reach agreement.

**SO 5. Increased efforts at policy reform to improve access to quality primary education in the region (\$ 1,975,000)**

Large segments of society in the Hemisphere, particularly women, minorities and indigenous groups, have not been equipped to participate fully in economic life. Nearly one-half of the Hemisphere's population lives in ignorance and poverty. The low level of primary school attainment is a major constraint to economic development; no country with low levels of human capital has developed successfully in a self-sustained manner in the latter half of the twentieth century. In some countries in the region, the relatively high levels of spending on education stand in stark contrast to the low levels of educational output, hinting of colossal waste. Education systems are unresponsive to those they should serve and are resistant to change. With modest investments in educational policy reform in LAC countries, USAID can have a direct effect on developing constituencies in the region to support policy reform and on the delivery of quality primary education.

Activities. The USAID's partnership in educational reform project will use policy dialogue to encourage selected governments in the region to make policy changes to improve the quality of primary education. USAID, in cooperation with the U.S. Department of Education, will participate with other donors in supporting a Hemispheric partnership to provide a consultative forum for governments, NGOs, the business community, donors and international organizations to review education policies and to focus resources for reform more effectively. The consultative forum will establish the framework, mechanism and process for sharing educational reform experiences in the Americas, leading to country-level reform in a variety of areas including educational finance, equity, quality, efficiency, education for democracy, work force preparation, and decentralization. In addition, USAID will boost the reform effort and share some of the United States' most innovative programs by introducing a few focused, fast and powerful interventions in the region.

Indicators. The following indicators measure progress in achieving this objective: (1) strengthened capacity in selected private sector, NGO, governmental and community organizations to formulate, conduct, and market educational policy reforms; (2) increased number of educational reforms enacted or implemented in the region; and (3) increased numbers of girls who are primary school completers.

Feasibility and Cost-effectiveness. Considerable evidence suggests that it is only when local policy thinkers, persuaders, and negotiators become intellectually convinced of the merit of an argument that policies change. The essence of USAID's program in the LAC region is to effect policy change through the development of a network of Hemispheric "change agents" who will work to reform their own governments' considerable investments in education. The program is very cost-effective because for

relatively small investments USAID can effect large changes in how national governments invest massive expenditures in education and because those changes will result in dramatic efficiencies and savings.

Progress in 1993-1994. Progress will take place in the 1995-1996 period.

Donor Coordination. Both the World Bank and the IDB have programs which support or are complementary to this strategic objective. Moreover, both banks are interested in co-financing the partnership in educational reform project.

Constraints. Given the dramatic shift in most of the region toward open economies and democratic governance, education reform is an important and current issue on the agenda of most countries in the Hemisphere. Various groups have special interests in this issue and often lobby to maintain the status quo. It will be difficult to reach agreement on what reforms should be made and how they will be financed.

**BUILDING DEMOCRACY (\$ 32,250,000 of which \$25,050,000 is ESF and \$7,200,000 is DAF).**

The 1990s have the potential to be an unparalleled era of democratic consolidation in LAC, but sustained democratic government will be successful only if progress is made across a variety of fronts to ensure greater adherence to the internationally recognized human rights of individuals; an informed practice of citizenship to strengthen civil society; and "good governance," or government institutions that are more transparent, accountable, effective, decentralized and accessible to citizens.

**SO 6. Strengthened regional democracy networks and institutions (\$ 25,050,000 ESF).**

Strengthening regional democracy networks and institutions is key to sustaining democratic government. The LAC regional program supports the establishment and fortification of networks among governmental and NGOs throughout the Hemisphere to share knowledge and best practices about democratic problems and reforms.

Activities. Through the Inter-American Institute for Human Rights (IIDH) and its electoral assistance arm, the Center for Electoral Assistance and Promotion (CAPEL), the regional program supports efforts to enhance awareness of Latin American leaders of the importance of human rights, including economic and social rights and the rights of women and ethnic minorities. The Latin American journalism program improves the professionalism and credibility of the media, a vital institution for any democratic society. The civic education project provides training and technical assistance to local NGOs and selected governmental entities that carry out democracy education activities. Small grants go to grassroots organizations to support networking and mutual assistance at the local, national and international levels. The Partners of the Americas network includes the League of Women Voters and many other affiliated organizations. The LAC regional program also promotes financial accountability and transparency on the part of LAC governments. The regional program collaborates with USAID's Global Bureau on projects to improve labor and labor-management practices, elections, civil-military relations and the administration of justice. Two proposed new activities include support for an association of NGOs working in civil society and establishment of a network of legislatures in the region. The latter will tap a wealth of resources in the United States and bring U.S. concepts, methodologies and experiences to LAC legislators and staff. The program provides support for institutional strengthening and development of various aspects of judicial and police systems in the hemisphere, including in Peru, Mexico and Central America. Finally, the program will provide economic assistance for those nations where it is critical to consolidate democracy, support human rights and promote economic reform and equitable growth.

Indicators. The following indicators measure progress in achieving this objective: (1) increased levels of programmatic, administrative and financial self-sufficiency; (2) increased involvement and legitimacy

of regional organizations; (3) enhanced numbers and quality of national- and local-level governmental entities and NGOs working in judicial and legislative reform, civic education and other sub-sectors of democracy.

**Feasibility and Cost-effectiveness.** USAID continues to support development of centers of technical excellence in the region, such as IIDH and CAPEL, which are able to respond quickly to host country and U.S. Government initiatives in a number of areas. The regional program supports pilot activities to introduce new methodologies, ideas or practices in the region. It is difficult to calculate exact pay-offs from investment in judicial reform or other democracy sub-sectors; however, strengthening democratic institutions and practices is the only way to ensure due process and respect for human rights for all citizens, accountability on the part of public officials, and the confidence necessary for increased trade and investment.

**Progress in 1993-1994.** The IIDH, instrumental in expanding the definition of human rights to include social and economic rights during the 1980s, is now creating a secretariat to coordinate the work of human rights ombudsmen among countries and to promote enabling legislation where it does not yet exist. Electoral tribunals frequently call upon CAPEL, IIDH's political arm to provide non-partisan technical electoral assistance (in 1993-94, to Ecuador, El Salvador, Panama, Paraguay, the Dominican Republic and Mexico). U.S. Government support for elections has led to increased voter confidence in the electoral process.

About 50% of the journalists in Central America have received basic training under the Latin American journalism program. The program is establishing a regional journalism training center in Panama, to be funded in part by Central American media owners who have already committed some \$800,000 of the necessary \$1.5 million required to ensure sustainability of the center. The regional civic education project formed a Hemispheric network of entities engaged in civic education. The regional accountability and financial management improvement project, in its first year, completed five country assessments, instituted the donor working group held two donor consultations and the first key financial managers conference in the region, and provided technical advice to USAID missions and several national governments. Administration of justice projects produced growing interest in alternative dispute resolution, relieving pressure on over-burdened court systems. Conferences on the rule of law cemented a network of justice reformers and resulted in formation of a grouping of chief justices of the Americas. The labor project is promoting recognition of workers' rights and the need to strengthen trade unions.

**Donor Coordination.** Election assistance activities that CAPEL participates in are coordinated with the OAS and other bilateral donors. For the journalism project, close coordination exists among U.S. Government agencies, particularly U.S. Information Agency (USIA). A donor working group coordinates international donor agency activities in government financial management and good governance. Implementors and associates of the regional civic education project regularly meet and exchange information with a wide variety of donors, U.S.-based organizations, host country municipal and national governments, NGOs, and regional groups.

**Constraints.** Considerable time is required in order for organizations to become sustainable, and progress is often slow. Continued commitment to this effort at all levels will be required.

The LAC regional program also contributes to building democracy in the region through training programs discussed below.

## **PROTECTING THE ENVIRONMENT (\$ 7,200,000)**

The LAC region is unusually rich in internationally renowned natural habitats, rain forests and biological diversity. Forty percent of the globe's tropical species and more than half of the remaining rain forests are found in the LAC region.

**SO 7. Improved protection of selected parks and protected areas (\$ 4,800,000).**

Intact and healthy tropical habitats, and the biodiversity contained within them, provide the population of the region with dependable water resources, fuelwood for cooking, timber, game, fish, fruits, nuts, medicines and revenues from ecotourism. They also provide the global community with the potential for new crops, crop varieties, and plant genes.

Activities. To conserve a representative sample of the region's biodiversity, the regional program promotes protection of formerly neglected LAC parks and protected areas. The program's integrated approach - linking park protection, NGO strengthening, sustainability and community participation - has established innovative units of conservation throughout the region that provide replicable, successful examples for NGOs, governments, and multilateral lending institutions. For example, activities to maintain the natural resource base are essential for the economic well-being of marginal rural populations and indigenous groups that depend on forest products, and for urban populations through protection of watersheds. Supporting environmental NGOs contributes to strengthening democracy by increasing local communities' participation in how natural resources, including the local biodiversity, are used.

Indicators. The following indicators measure progress in achieving this objective (1) sustainable, non-USAID funding sources for long-term protection of targeted parks and protected areas; (2) strengthened community environmental awareness and participation in park decision-making; (3) strengthened community, NGO and government capacity for long-term management of targeted parks and protected areas; and (4) parks and protected areas receiving adequately trained park guards and park rangers, and having adequate infrastructure.

Feasibility and Cost-effectiveness. Current modest investments in 26 protected areas in the region have greatly increased the prospect for long-term sustainability of these biologically rich sites. Support for park infrastructure, park guards, and training immediately diminish large-scale incursions and unsustainable hunting in park sites. Strengthening environmental NGOs increases their national and international visibility and, thus, their ability to raise funds, implement projects, and influence government policy. Improving community environmental awareness and economic gains from park activities greatly increases the likelihood that park sites will be maintained after USAID support ends.

Progress in 1993-1994. Examples of recent progress include better protection and management activities at 26 sites, totalling 18.3 million acres; sustainable funding found for five park sites in Bolivia, Panama and Paraguay; enactment of a Paraguayan law adding 25 new protected conservation sites, totalling 2 million hectares; and international recognition via the receipt of the 1994 United Nations Environmental Program's Global 500 Award by two Parks in Peril-supported NGO partners.

Donor Coordination. The program is currently leveraging matching funds from U.S. foundations. Once sites are better established, the World Bank Global Environmental Facility and other multilateral bank assistance will likely support park protection and related government infrastructure, especially in Mexico, Ecuador, and Peru. Enterprise for the Americas Initiative funds, the Mexico Nature Conservation Fund and Peru's National Fund for Protected Areas (PROFANANPE) in Peru will likely augment protection activities.

Constraints. Future program success may be constrained by political instability in certain countries (e.g., Mexico, Guatemala, Colombia) and rapid rates of deforestation throughout the region.

**SO 8. Increased capability to prevent pollution in key LAC countries, municipalities and industries (\$ 493,000).**

Rapid increases in urbanization and industrialization and their disproportionate impact on the poor are critical concerns in the region.

**Activities.** To reduce urban and industrial pollution in targeted LAC countries, the regional program uses three complementary approaches: (1) strengthening environmental regulations and incentives to reduce urban and industrial pollution and to promote free trade; (2) increasing adoption of clean, U.S.-based technologies and knowledge; and (3) strengthening NGO "watchdog" organizations which ensure government and industrial compliance with environmental frameworks and protect local community interests. The regional program is implemented as part of USAID's Environmental Initiative for the Americas, an Agency response to the Summit of the Americas.

**Indicators.** The following indicators measure progress in achieving this objective: (1) new policies in targeted countries and industries, in harmony with U.S. environmental prevention pollution standards; (2) adoption of clean U.S.-based technologies and methodologies by targeted industries and municipalities; (3) reduction of pollution effluent, particularly hazardous and toxic waste, from targeted municipalities and industries; (4) NGO actions taken against perpetrators for non-compliance with environmental laws and regulations; and (5) stories appearing in communication media on key environmental pollution issues.

**Feasibility and Cost-effectiveness.** USAID experience indicates that the following types of activities are low-cost and effective at reducing pollution: (1) strengthening environmental regulatory agencies to boost host country capacity to monitor environmental pollution to conduct environmental impact assessments; (2) adopting clean industrial production technologies that diminish environmental degradation and promote industrial efficiency; (3) promoting deployment of sanitation infrastructure, technologies and services for potable water, solid and hazardous waste disposal, and low-cost wastewater treatment; and (4) assisting targeted countries to develop human resource capacity for strengthening administrative, legislative and judicial functions essential for effective development, implementation and enforcement of environmental laws and regulations.

**Progress in 1993-1994.** Progress includes (1) hiring two environmental engineers to oversee the design and management of this initiative, (2) support for USAID country missions which are beginning similar activities in the host country, and (3) conceptualization of the new Environmental Initiative for the Americas.

**Donor Coordination.** Both the World Bank and Inter-American Development Bank have large and expanding portfolios in this arena. This new regional program objective is designed specifically to guide and collaborate with these larger multilateral programs by: (1) funding strategies to determine priorities; and (2) providing successful pilot examples for large-scale replication. The regional program will also cooperate with similar ongoing activities promoted by host governments and international donor agencies.

**Constraints.** Success may come slowly as USAID mission and host government experience and expertise in facilitating programs are developed.

The LAC regional program also contributes to protecting the environment in the region through training programs discussed below.

#### **CROSS-SECTORAL ISSUES (\$15,000,000)**

**Training Programs (\$15,000,000 of which \$5,564,000 is for encouraging broad-based economic growth, \$2,236,000 is for protecting the environment and \$7,200,000 is for building democracy).**

**Activities.** The Cooperative Association of States for Scholarships (CASS) project, implemented by Georgetown University since 1989, provides courses of technical study to socioeconomically disadvantaged young leaders from Central American and Caribbean countries, of which almost half are women. Approximately 300 students from 15 countries enroll each year in courses of study at one of 25 state universities or community colleges from Maine to California. Georgetown selects schools



based on the areas of skill training offered. A dozen skill areas are reviewed each year for continued relevance to meeting important human resource shortages in each participating country, and include industrial quality control, computer and medical equipment servicing, ecotourism, small business administration, food science, agribusiness and shrimp aquaculture.

"Experience America" is a substantive component of the CASS project, which assures students spend at least 12 of the 24 months living with local host families near their colleges. They return to their countries with a good command of English, a solid base of technical training, and an understanding of American values such as community-based public participation and problem-solving approaches through teamwork. About 85 % of trainees find jobs within 6 months of returning, although not always within their fields of study. Many start their own micro-enterprises, while about 20% continue their higher education part-time at national universities.

Indicators. Indicators which measure progress achievement include the following: (1) increased human capacity to improve public and private sector productivity in technical skill areas, small-scale management capability and problem-solving approaches to job-related decisions, and; (2) increased exercise of community and office-team leadership techniques in furthering democratic, participatory, pragmatic approaches to local problemsolving.

Feasibility and Cost-effectiveness. The CASS project has produced just under 2,000 trained returnees since its inception in 1989 as a 24-month training program. The program will continue to seek to produce well-trained young leaders from socio-economically disadvantaged sectors of society in high priority areas.

Feasibility and Cost-Effectiveness. This approach to skill development must be compared to alternative approaches involving institutional and policy reforms focusing on the effectiveness of national education and vocational training systems.

Progress in 1993-1994. The process and impact evaluations of the Georgetown University/CASS project, indicate a comparatively effective training program. In some instances there is an inadequate coordination between Georgetown University and USAID missions and insufficient congruence with USAID strategic objectives in fields of study selected. CASS is currently endeavoring to correct these problems.

Donor Coordination. The CASS project originally intended to obtain 50% of scholarship contribution or cost absorption by participating state colleges; this target was reduced to 25% in 1991, and since then has been met or exceeded annually in the aggregate. Contributions take the form of no-cost counselor and administrative services, no-cost housing through host family arrangements and tuition reductions.

LAC REGIONAL PROGRAM  
FY 1996 PROGRAM SUMMARY

	<i>Encouraging Broad-Based Economic Growth</i>	<i>Stabilizing Population Growth</i>	<i>Protecting the Environment</i>	<i>Building Democracy</i>	<i>Total</i>
<i>USAID Objective</i>					
1. Advance Hemispheric Free Trade Economic Support Fund	\$ 2,500,000				\$ 2,500,000
2. Increase Sm. Entrepreneur Dev. Assistance Fund	\$ 4,540,000				\$ 4,540,000
3. Increased Use of Selected Health Interventions Dev. Assistance Fund	\$ 5,342,000	\$ 110,000			\$ 5,452,000
4. Increased Equitable Access to Basic Health Services Dev. Assistance Fund	\$ 1,000,000				\$ 1,000,000
5. Access Quality primary Education Dev. Assistance Fund	\$ 1,975,000				\$ 1,975,000
6. Strengthening Reg'l Democracy Networks Economic Support Fund				\$25,050,000	\$25,050,000
7. Improved Protection of Selected Parks & Protected Access Dev. Assistance Fund			\$ 4,800,000		<u>4,800,000</u>
8. Increased Capacity to Prevent Pollution Dev. Assistance Fund			\$ 493,000		\$ 493,000
9. Cross-Cutting Issues: Training Dev. Assistance Fund	\$ 5,564,000		\$ 2,236,000	\$ 7,200,000	\$15,000,000
<b>Total</b>	<b>\$21,157,000</b>	<b>\$ 110,000</b>	<b>\$ 7,200,000</b>	<b>\$32,250,000</b>	<b>\$60,810,000</b>

Office of Regional Sustainable Development Director: Wayne Nilsestuen

**CENTRAL PROGRAMS**

**Sally Shelton**  
**Assistant Administrator**  
**Bureau for Global Programs, Field Support and Research**

**M. Douglas Stafford**  
**Assistant Administrator**  
**Bureau for Humanitarian Response**

## CENTRAL PROGRAMS

**FY 1996 DEVELOPMENT ASSISTANCE REQUEST: \$451,300,000**  
**FY 1996 DEVELOPMENT FUND FOR AFRICA REQUEST: \$30,685,000**

The central programs of USAID develop new approaches to development, provide technical support to USAID field missions, and respond to a range of natural and man-made disasters on behalf of the United States. The central programs exercise technical leadership within the international development community -- U.S. universities, U.S. private voluntary organizations (PVOs), local nongovernmental organizations (NGOs), international organizations and other donors -- to ensure that donor policies are well coordinated and that the USAID resources are focused in areas of U.S. strategic interests and comparative advantage.

Development assistance is designed to help other nations become sustainable, but is in the self-interest of the people of the United States. Successful development creates new markets for U.S. exports and promotes economic growth in the United States. It improves the public health of other countries which affects the well-being of many countries, including our own. America's poor increasingly benefit from development methods pioneered abroad, such as microenterprise and childhood nutrition interventions. Americans benefit with others from developmental achievements, such as the eradication of smallpox, the elimination of polio from the western hemisphere, the preservation of germ plasm to ensure the survival of the most productive strains of food crops, the reduction of emissions contributing towards global warming, or the improvement of contraceptive technology.

Aside from providing humanitarian assistance, we provide transitional assistance in a few countries to move them from chaos to the possibility of sustainable development.

The central program budget covers funding for programs initiated and managed by the following bureaus: Bureau for Global Programs, Field Support, and Research; Bureau for Humanitarian Response; and Bureau for Policy and Program Coordination. Funding for activities of these bureaus that are requested by USAID missions in direct support of their own programs is included in the budgets of the relevant country programs.

**STABILIZING WORLD POPULATION GROWTH AND PROTECTING HUMAN HEALTH (\$284,578,000, of which \$158,378,000 is for Population Growth programs and \$126,200,000 for Health programs).**

If population and health problems are ignored, they will ultimately impact on the United States through the unchecked spread of disease, and the evolution of an overall poorer, overcrowded world with severely limited opportunities for everyone.

- At current rates, the world's population will grow by 90 million people per year. The developing world will grow by almost 2%, or about 86 million people; in contrast, the developed world will grow by 0.3% or about 4 million people.
- The infant mortality rate in developing countries is seven times that of developed countries.
- HIV/AIDS, which threatens to reverse hard-won improvements in child survival and lower fertility in many developing countries, has reached epidemic proportions in many of the most densely populated parts of the world.

These problems cannot be isolated in this day of global transit and commerce and under the conditions in which most developing countries find themselves.

USAID has been instrumental in reducing the average family size in developing countries from more than 6 children to just over 4 children per family; lowering infant mortality rates worldwide by 10% in the past 8 years; eradicating polio in the Western Hemisphere; and saving millions of lives through oral rehydration therapy to control acute diarrhea. These successes reflect the leadership of USAID.

Central programs, in collaboration with USAID missions, will focus on four specific areas of accomplishment relating to health, population and nutrition: (1) reduction of unwanted fertility, contributing to a global effort to stabilize world population growth; (2) reduction of maternal mortality rates by half by the year 2000; (3) reduction of child mortality rates by one-third by the year 2000; and (4) reduction of new HIV infection rate by 15% by the year 2000.

Building on USAID's past successes the central programs will continue to develop, test and apply new and improved technologies and approaches to achieve USAID's population and health objectives.

With FY 1996 funding, the central programs will carry out the following activities:

- Test and introduce into immunization programs improved vaccines against acute respiratory infections (pneumonia and meningitis); develop and field test two vaccines against malaria; expand the financial mechanism (revolving fund) permitting more developing countries to procure vaccines with local currency; and develop, test and introduce improved oral rehydration salts (ORS) formulations to save the lives of infants who would otherwise succumb to severe diarrhea;
- Improve knowledge, attitudes, and practices through dissemination of new approaches to promote behavior change, focusing on family planning and the role of men, oral rehydration therapy (ORT), breastfeeding, improved nutrition, and early diagnosis and treatment of acute respiratory infection;
- Develop and introduce innovative means to ensure safe delivery practices and dietary interventions to improve pregnancy outcomes;
- Establish new approaches to increasing the competency of family planning and health service providers, including the development of improved guidelines for clinical training standards;
- Expand the commercial sector's participation in delivering family planning services by working with advertising and marketing agencies to develop new prototypes, and work with contraceptive manufacturers to encourage product donations;
- Improve management capabilities of both health and family planning service delivery organizations, so that they can better meet the needs of clients;
- Complete pre-clinical studies and clinical trials of spermicides and virucides, new female barrier contraceptives, novel non-latex condoms, and long-acting hormonal methods for women and men in order to develop more acceptable contraceptives that also protect against sexually transmitted diseases (STDs);
- Identify improved ways of prevention, diagnosis and treatment of STDs and establish national policies and programs to implement findings;
- Prepare comprehensive regional and country level strategic plans for combatting HIV/AIDS in selected countries based upon the results of clinical, operational and behavioral research on improved approaches to prevent the spread of HIV and to develop additional preventive protocols;

- Identify new methodologies and techniques to help field programs reduce policy, medical and social barriers to the provision of family planning and health services and address the underlying issues of quality assurance; and
- Introduce improved indicators for measuring program impact and performance in family planning and reproductive health, including new survey modules.

#### PROTECTING THE ENVIRONMENT (\$62,675,000).

Environmental degradation poses a growing threat to the physical health and economic and social well-being of people throughout the world. The global environmental challenges of climate change and loss of biodiversity, combined with the consequences of local environmental mismanagement -- such as increasing poverty, social instability and resource-based conflict -- pose real threats to America's own economic and political interests in the 1990s and beyond.

Accelerating losses of highly diverse tropical forests in countries such as Brazil and Indonesia contribute to future likelihood of major climate change with unknown consequences for the United States at home, while the current multi-billion dollar pharmaceutical industry loses potentially valuable biochemical sources, and the United States loses future options in biotechnology industries before they are even fully understood. Ozone layer depletion through the release of airborne contaminants into the atmosphere immediately increases U.S. and other Northern Hemisphere skin cancer risks, while posing potential additional threats in the future that still are not yet fully understood.

USAID programs have been instrumental in providing developing countries with the tools to better manage their natural resources; nearly half of current biodiversity efforts in developing countries are supported or were initiated by USAID. USAID efforts to improve systems for the provision of urban infrastructure and shelter have led to fundamental improvements in over 20 countries and have improved the lives of millions of people. USAID efforts have led to successful privatization efforts in the power sector in many developing countries, opening important new markets for U.S. companies while providing more efficient energy production. For example, between 1988 and 1993 a USAID investment of \$10 million in leadership and technical assistance for promoting the privatization of electric power markets resulted in the installation of 30,000 megawatts of independent power plants in developing countries. U.S. companies captured approximately one-third of this market and realized \$8 billion from this expansion.

Future efforts will focus on seven areas:

- Reversing loss of biodiversity. The world's biodiversity is disappearing at an alarming rate. To check this trend USAID's central programs seek to improve public understanding of biodiversity conservation; to improve biodiversity policies and economic incentives; and to strengthen conservation planning and management. FY 1996 funding will result in: (1) improved public and decision-makers' understanding of biodiversity and its conservation; (2) improved policy and economic incentives for conserving and sustaining biodiversity; directly improved management of biodiversity, with emphasis on habitat, and wildlife aspects, within and outside protected areas; and (3) increased national and international financial and active programming commitments to sustainable biodiversity conservation.
- Environmental policy, economics, and institutions. To promote the conservation, improved management, and sustainable use of natural resources, including soils, forests, biodiversity, water, wetlands, and coastal and aquatic ecosystems, the central programs' use of FY1996 funding will result in: (1) improved policies and strengthened institutional capacity to implement effective strategies, plans and programs; (2) adopted effective natural resource management technologies, techniques and practices; (3) heightened public awareness and

knowledge of environmental issues affecting natural resources; and (4) strengthened local, community-based natural resource management programs and participatory approaches.

- Global climate change. Rapid climate change presents a long-term threat to the global environment. Central programs' use of FY 1996 funding will result in: (1) reduced growth rate of greenhouse gas emissions; (2) increased carbon sinks through maintaining the integrity of existing carbon sinks, especially tropical forests, and creating new sinks; and (3) improved policies and regulatory reform.
- Water resources. Water resource problems are reaching crisis proportions: over one billion people lack access to potable water; unmanaged exploitation of watersheds, lakes, rivers, aquifers, and coastal waters degrade the goods and services these systems provide; and competition for water is a subject of growing disputes around the world. USAID has identified improving the quality and management of water resources as a key objective and are developing an approach to deal with a range of important issues, from urban and industrial water quality management, through water sector planning and institution building, to watershed management, coastal resources management, and protection of aquatic biodiversity. These mechanisms will use FY 1996 funding to address problems of water scarcity, declining water quality, loss of aquatic and marine resources, and inappropriate development in riparian and coastal areas, and to support the International Coral Reef initiative.
- Urban environment. Poorly managed urbanization and industrialization pose enormous environmental problems, especially for the urban poor. Central programs will use FY 1996 funding for improvements in: (1) awareness of urban management and industrial pollution problems; (2) access to environmental infrastructure and services such as potable water; (3) technology cooperation by demonstrating innovative technologies that can both prevent pollution, and make industry more profitable; and (4) access to shelter.
- Sustainable energy use. Energy production and its use are major causes of environmental degradation. Central programs will focus on efforts to develop energy policies and regulations that provide for the market pricing of energy and that foster the transition from state-owned to privately owned energy plants. These efforts are intended to increase energy efficiency and renewable energy use and to support the widespread utilization of environmentally sound energy technologies. FY 1996 funding will be used to: (1) train 300 key senior-level planners, managers, and engineers in American energy and environmental technology and management practices; (2) use technical assistance to attract \$185 million in World Bank, Asian Development Bank, and Inter-American Development Bank investments in U.S. private sector energy-efficiency and renewable energy projects in developing countries; and (3) support policy and regulatory reform efforts aimed at opening up over \$2 billion in private power investments in countries of Asia and Latin America.
- Environmental technology. Environmental technologies, both hardware and software, advance sustainable development goals by addressing pollution prevention, efficient resource use and industrial ecology. Developing countries profit from greater access to and application of environmentally beneficial technologies. At the same time, developing countries represent the fastest growing markets for U.S. suppliers of environmental goods and services. USAID central programs will continue to work closely with the U.S. private sector to support the development and diffusion of appropriate technologies by providing better access to information, building human and institutional capacity, promoting appropriate regulatory incentives, and supporting demonstration projects and innovative financing mechanisms.

## ENCOURAGING BROAD-BASED ECONOMIC GROWTH (\$108,355,000).

USAID's efforts to promote broad-based economic growth have yielded impressive returns. Many of the divisive debates on the best approaches to economic growth are now a thing of the past. There is now a consensus on the policies required for broad-based economic growth. USAID's efforts have contributed considerably to the adoption of economic policy reforms in much of the developing world. Examples of these successful efforts include the Czech Republic, Nicaragua, and Costa Rica:

- The Czech Republic. The USAID Mission in Prague provided essential support to economic policy makers in implementing a whole range of reforms. USAID successfully worked to fill the vacuum in market-place skills in finance, management, and law. USAID technical assistance saved banks from bankruptcy, leveled the playing field for foreign firms to participate in privatization, and provided training to thousands of Czechs and Slovaks in classrooms and on the job. The result has been restitution or privatization of 125,000 firms and residences, a balanced government budget, 10% inflation, and an unemployment rate of 3%-4%.
- Nicaragua. The Sandinistas left their country with hyperinflation, large government deficits, an overvalued exchange rate, and -- as they left office -- enormous wage increases. But USAID's second cash transfer (\$118 million in December 1990) and its third (\$185 million in May 1991) were conditioned on specified economic policy reforms. These reforms were worked out through joint evaluations and decision-making by senior Government policy makers and senior USAID staff. Successful implementation resulted in budget cuts, slower money growth, a market exchange rate, an end to state-owned foreign trade monopolies, the introduction of private banks, privatization of almost half of all state-owned companies, tariff reductions, and a 12% reduction in public employment. The further consequences were a fiscal surplus, a reduction in the rate of inflation from 15,000% in 1990 to under 5% in 1992, a return to positive real interest rates, an end to the foreign-exchange black market, and after seven years of decline, a 2% increase in gross national product (GNP) in 1992.
- Costa Rica. In 1982, Costa Rica defaulted on its foreign debt and dropped into an economic crisis caused largely by misguided statist economic policies. While sustaining genuine political democracy, it had remained a banana and coffee republic, with trade in manufactures confined to the Central American Common Market. Throughout the next decade, USAID mission and central programs were heavily involved in assisting Costa Rican policy reform, using conditioned aid, technical assistance, and continuous on-the-spot support. The result was elimination of most foreign exchange, interest rate, and other price controls; markets opened to international competition; most state-owned enterprises privatized; strengthened environmental protection; the emergence of private banks which financed an export boom; and Costa Rica's ability to "graduate" from USAID assistance in 1996. The human impact can be seen in rising wages and falling poverty.

USAID's investments in economic growth have produced tangible and meaningful results for large segments of poorer populations in the developing world. As a result of direct investments, USAID's assistance has enabled millions of entrepreneurs, many of them women, to start small income-generating businesses.

The Agency's influence on economic growth in the developing nations of the world also can be seen in secondary benefits. USAID's central program investments in agriculture research not only enhance U.S. access to germ plasm on a worldwide basis, but also lay the foundation for the major gains in the productivity of food grains in most developing countries. Similarly, the central program's promotion of integrated pest management practices has substantially reduced the application of environmentally harmful agrochemicals while increasing productivity and post-harvest availabilities - a substantial economic contribution to many marginal economies.



Underlying USAID's emphasis on economic growth is a concern for the impacts on people - especially women, the poor and disadvantaged groups. Future efforts of the central programs, carried out in collaboration with field missions, will focus on those areas where the potential for high impact at the grassroots level has been demonstrated. Assistance will be targeted at the following activities:

- Improved food security and agriculture productivity, particularly through sponsoring agronomic research and strengthening market access and efficiency;
- Expansion of credit facilities and financial services for low-income households and women; and
- Economic policy liberalization, reformation of financial systems, privatization of productive enterprises, and incorporation of U.S. technologies into productive sectors -- all of which are aimed at generating increased employment and income opportunities.

In the area of microenterprise development, the central programs will be responsible for parlaying \$30 million of FY 1996 funding into the equivalent of \$1.2 billion in loans over a ten-year period (i.e., 4 million loans to microentrepreneurs, at an average of \$300 per loan).

Broad-based economic growth of our development partners is clearly in the interest of the United States. More than 30% of all U.S. exports go to the developing world and with trade barriers diminishing in recent years, the potential for U.S. export growth is substantial. USAID assistance to developing countries helps set the stage to achieve market-oriented economies. This achievement has made it possible for many developing countries to participate in and ultimately benefit from the General Agreement of Trade and Tariffs (GATT). The assistance for economic policy reforms, provided through analysis and technical assistance, helps achieve and sustain stable macroeconomic policies, (including fiscal and financial sector reform), and to support liberalization of trade both domestically and internationally, deregulation, and market-oriented pricing practices. The assistance further facilitates the harmonization of policies, especially those related to trade across countries, that will make it possible to implement the GATT agreement and achieve the expected increase in world trade. Prospering developing countries mean stable and profitable markets for U.S. businesses.

#### BUILDING DEMOCRACY (\$26,377,000).

The United States has played an important role in this global democratic revolution with diplomatic and financial assistance. USAID has provided technical assistance for free and open elections in several new democracies and backed programs aimed at improving the decision-making capabilities of democratically elected legislatures. We have collaborated with local organizations to increase government responsiveness and have strengthened local government bodies that have acquired new authorities and responsibilities. In a strictly non-partisan manner, USAID has encouraged the emergence of an independent media, political parties, trade unions and other mechanisms of political expression.

A new role for USAID's central programs is the promotion of democracy and governance by supporting the transition to and consolidation of democratic governments in several developing countries. In FY 1996, central programs will work in collaboration with regional programs or missions to promote:

- rule of law, including human rights and the administration of justice;
- fair elections and participatory political processes;
- civil society, including the existence of private citizens' organizations outside the state; and
- democratic governance, which includes accountability, transparency and decentralization.

Election laws will be changed to make a level playing field for all parties. Poll workers and election officials through training will ensure the integrity of election procedures. The electorate will gain increased knowledge of the democratic political process through civic education programs. The latest techniques in modernization of the judicial system will be introduced, affecting directly the ability of judges, prosecutors and public defenders to improve the administration of justice. To strengthen the private organizations of civil society that underlie democratic societies, NGOs will learn to use modern technology networking approaches that allow them to communicate effectively among themselves. Procurement practices of governments will change as a result of anticorruption efforts on a systematic, organized basis.

USAID mission and regional programs have been successful in supporting crucial elections with these practices in South Africa, El Salvador and Cambodia, among others. The central program will build upon this diverse experience, sharing lessons learned in these countries with missions around the world. The strong support for nongovernmental organizations in South Africa's transition to democracy is an approach that USAID central programs can use in other countries. Improvements in Colombia in the management of the court system represent another tested method that the central programs can apply to new country programs. Law reform efforts in Eastern Europe show the importance of the legal framework to both democracy and free market economies; these approaches can be applied to achieve both objectives in an integrated fashion in other countries as well.

Support for the transition to open and accountable democratic governments in the developing world is in the U.S. national interest. Countries that share our democratic values are much more likely to respect the rights of their citizens and the rule of law in their behavior with other states; they are also more reliable commercial and diplomatic partners in the international arena.

#### CROSS-CUTTING PROGRAMS.

Several centrally managed programs provide cross-sectoral services in furtherance of multiple USAID goals. They provide policy guidance, technical support and related services to USAID missions, support research to meet the needs of developing countries, and provide technical leadership aimed at resolving global problems. Specific emphases include: human capacity development; the role of gender in sustainable development; PVOs and performance monitoring and evaluation.

Developing Human Capacity. USAID central programs provide technical leadership and field support in the improvement of education and training systems. Among the areas of lasting achievement are: leadership in the development of cost-effective instructional technologies, including inter-active radio and the use of distance education technologies; systems approaches to education sector reform, including education management information systems and the systematic use of research to guide instructional improvement and the allocation of resources; development of the analytic and research base for effective advocacy on the importance to sustainable development of education of girls and women; cross-sectoral attention to the developmental needs of the young child; long-term attention to the role of scientific research institutions and universities in generating new knowledge and training the next generations of leadership in all sectors.

In addition, USAID will provide continuing leadership in support of: policy reforms to improve the use of education and training resources, public and private; increased attention to the education of girls and women; community and family support for the young child; development of new partnerships among educators and employers, with more effective strategies for school-to-work transition; the capacity of countries to access and use information, making more effective use of information and telecommunications capacities; and research capacities and international networking for the application to development of relevant scientific research and new technology.

USAID's programs in FY 1996 in the human capacity development area will focus on the following:

- Decentralization of education systems and the improvement of local administrative capacities in at least 10 countries within 5 years;
- New applications of instructional technology, leading to increased student achievement, in at least 10 countries within 5 years;
- 20% reduction in developmental delays in at least 10 countries within 8 years, with consequent improvement in school readiness and achievement;
- Development of national strategies for the improvement of education for girls and women in at least 10 countries within 3 years, with consequent increases in enrollment and completion rates for girls and increases in female adolescent and adult literacy;
- Strengthened school-to-work partnerships with effective strategies for improving school-to-work transition in at least 10 countries within 5 years, with consequent measurable improvement in employer satisfaction with the adequacy of the trained work force within 8 years;
- Institutional and policy changes leading to increased use of appropriate information and communication methods and technologies in at least 8 countries within 8 years;
- Substantive and significant contributions to international linkages in science and technology, including linkages for minority-serving institutions, with consequent contributions to the scholarly capacity of host-country institutions (as measured by the ability of national scholars to participate effectively in international networks) and in contributions to new knowledge (as measured by significant scientific publications); and
- Development of new training strategies for the management of external and national training, with implementation in 20 missions within 2 years, and continued technical support for an estimated 14,000 individuals per year in external training.

Women in Development. FY 1996 funding will be used to strengthen the role of women as both participants in and beneficiaries of sustainable development. Emphasis will be placed on (1) providing technical support for the integration of gender considerations in USAID's policies and programs; and (2) strengthening linkages with bilateral and multilateral donors and nongovernmental organizations regarding women in development. Special activities include: "showcasing" innovative approaches to gender concerns and disseminating lessons learned about effective integration of gender considerations.

Strengthening USAID'S Development Partners. USAID supports activities to strengthen the capacity of private voluntary organizations (PVOs) to work more effectively in priority development areas and in forming collaborative relations with indigenous organizations. USAID support for PVO capacity-building is tailored to meeting the strategic objectives of USAID. Funds are allocated to individual organizations through competitive grants. The major central grants programs are:

- Matching Grants. The program strengthens U.S. PVOs' technical, planning and management capacity to carry out development programs in approved countries, often working in collaboration with local organizations, and PVOs provide 50% of the total funding. ACCION International, for example, has strengthened the capabilities of local organizations in Guatemala, Peru, and the Dominican Republic in microenterprise lending. The focus on microenterprise has resulted in replication of successful cost-recovery models for loan and savings programs for the poor.

- Child Survival. USAID supports PVO activities that help reduce infant mortality and improve child health in priority developing countries. These programs have had measurable impact at the community level in reducing mortality, improving the quality of child survival interventions, and in developing replicable methodologies. For example, through its child survival work in Indonesia, Project Concern International has developed a neonatal tetanus immunization program which has been adopted at the national level, saving lives and accelerating the elimination of neonatal tetanus.
- Cooperative Development. USAID's central programs provide support to U.S. cooperative development organizations, enabling them to assist cooperative movements in developing countries and new democracies. Cooperative development organizations provide help to local counterparts in such areas as institution building, technology transfer, capital formation, infrastructure development, finance, and marketing. For example, U.S. cooperatives have assisted in the creation and strengthening of rural electric systems in the Philippines, Bangladesh, and Bolivia; telephone cooperatives in Poland; and agricultural cooperatives in over 100 countries.
- Development Education. USAID's development education program supports the efforts of U.S. non-profit organizations to educate American citizens about development activities overseas as they relate to U.S. interests in addressing global problems of poverty and hunger. The program has mobilized the resources of over 80 organizations, significantly strengthening their ability to carry out effective educational and informational programs, and creating a cadre of experienced and committed development educators.
- Ocean Freight. USAID provides small grants to over 50 U.S. PVOs each year, including small, newer PVOs, so that they can transport donated developmental and humanitarian commodities, such as medical equipment, pharmaceuticals, and books to developing countries.
- Institutional Support. USAID provides institutional support grants to strengthen the management and technical capacity of the PVOs that implement food assistance programs under the P.L. 480 Title II Food for Peace program. These grants have helped the PVOs to plan programs for greater impact on food security, to initiate food assessments, to develop monitoring and evaluation systems and to improve the technical skills of their staff.

American Schools and Hospitals Abroad. USAID provides grants to overseas schools, libraries and hospital medical education and research centers which are sponsored by U.S. organizations and serve as demonstration centers for American ideas and practices. In FY 1994, the Agency began to reorient the program toward sustainable development priorities. For example, this program contributes directly to the Agency's objectives of promoting democracy by training leaders and policy makers and imparting U.S. values and technology. It also contributes to sustainable development by strengthening the capabilities and improving the quality of services of local medical and educational institutions.

USAID plans a \$15,000,000 ASHA program FY 1996 to continue the program reorientation toward institutional activities that are the most urgent and are consistent with the Agency's sustainable development objective. This compares to a program level of \$20,000,000 in FY 1994 and FY 1995.

Learning from Experience. Central programs will also use FY 1996 funding to maintain leadership in assisting our development partners (both donors and developing countries) to learn from experience. These resources will be used to achieve three objectives:

- Expand knowledge of the performance and impact of USAID's sustainable development and humanitarian assistance programs and of the efficiency of key operating systems. Evaluations are carried out in response to specific issues identified by USAID managers. Recently

completed assessments include microenterprise finance, civil society programs, agribusiness, biodiversity, investments in agriculture, and relationships with PVOs and NGOs.

- Expand analysis and reporting on program performance. By April 1995, all USAID operating units, including field missions and central bureaus, will have strategic plans with performance indicators and targets. An Agency-wide strategic plan also is being developed. With these plans in place, we will be able to conduct more comprehensive analyses of how our programs are performing, in order to learn from our experience and direct program resources to areas and countries where the prospects for success are greatest.
- Provide information on USAID's program performance, development experience, and economic and social data. We will continue to improve our capability to provide timely lessons of experience and economic and social data to Agency managers, policy makers, program planners and our development partners.

**CENTRAL PROGRAMS  
FY 1996 PROGRAM SUMMARY**

Goals =>  Funding Categories ↓	Encouraging Economic Growth	Stabilizing World Population Growth and Protecting Human Health	Protecting the Environment	Building Democracy	Total by Funding Category
Encouraging Economic Growth	96,585,000 *	115,600,000		908,000	213,093,000
Stabilizing Population Growth		158,378,000			158,378,000
Protecting the Environment			61,425,000 *		61,425,000
Building Democracy				18,404,000	18,404,000
Development Fund for Africa	11,770,000	10,600,000	1,250,000	7,065,000	30,685,000
<b>Total by Goal</b>	<b>108,355,000</b>	<b>284,578,000</b>	<b>62,675,000</b>	<b>26,377,000</b>	<b>481,985,000</b>

\*Excludes the Housing Guaranty Program, which in FY 1996 is financing \$108 million in urban environmental infrastructure and services and \$33 million in encouraging broad-based economic growth.

## CREDIT PROGRAMS

FY 1996 Guaranty Subsidy Request.....	\$28,760,000
FY 1996 Administrative Expenses.....	\$ 9,740,000

This USAID request to fund FY 1996 credit programs (direct loan and loan guaranty programs) reflects a policy decision to increase use of credit to finance sustainable development programs. This additional credit authority, through the Enhanced Credit Program, will allow USAID missions the flexibility to decide how to best finance specific development activities. It will also allow USAID to leverage its limited resources more effectively. While USAID will remain primarily a grant agency, the policy shift toward expanded credit programs will enhance the ability of the Agency to meet sustainable development objectives by leveraging private sector resources.

The increased emphasis on credit programs will not alter USAID's strategic objectives but merely substitute loans or loan guaranties for more costly grants where (a) credit is the best mechanism by which to further USAID's development goals; and (b) the borrowers are deemed creditworthy. The credit programs detailed below will be operated strictly in accordance with the Credit Reform Act of 1990 ("Truth in Budgeting Act"), first effective in FY 1992.

The United States has a vast pool of experience in property development and homebuilding. USAID promotes the export of homebuilding products and expertise by providing assistance through two of the most important organizations in the U.S. real estate industry, the National Association of Realtors (NAR) and the National Association of Home Builders (NAHB). With USAID funding, the NAR has helped establish real estate professional associations in Eastern Europe and the New Independent States of the former Soviet Union. In addition, the NAR has participated as part of the official U.S. delegation to the United Nations Commission for Human Settlements and has advocated the principles of private home ownership in this forum for more than ten years. Similarly, the Home Builders Institute (HBI), the educational arm of the NAHB, is strengthening the private homebuilding industry in Poland through training, technical assistance, and the creation of a trade association. HBI also facilitates dialogue between Polish and American homebuilders, including the promotion of joint ventures and the use of U.S. building materials in Poland. Over the long term, the Enhanced Credit Program is expected to foster the development of similar relationships for U.S. organizations and associations in sectors other than housing and urban environment. The Micro and Small Enterprise Development (MSED) program, by facilitating the transition of many entrepreneurs from the informal to the formal sector of the economy, will increase the potential size of the commercial market for U.S. business.

### Housing Guaranty Program

FY 1996 Housing Guaranty Program Request:

• Guaranty Subsidy.....	\$16,760,000
• Administrative Expenses.....	\$ 7,240,000

Well over half of the gross domestic product (GDP) in most if not all developing countries comes from their rapidly expanding urban centers. Well managed and environmentally sound urbanization is key to sustainable economic development. The Housing Guaranty (HG) program has been USAID's primary tool for addressing urban development issues, including the financing and management of low-income shelter and environmental services, i.e., potable water, sewerage, water treatment, and solid waste management. The program extends loan guaranties to U.S. private investors who make loans to public and private institutions in developing countries. USAID works with local institutions and communities to design programs that use the loan proceeds to formulate and execute sound and sustainable urban environmental, municipal development, and housing policies. USAID credits are provided to encourage less developed country recipients to make needed and fundamental policy and institutional reforms. The HG program has made it possible for U.S. private investors to provide more than \$2 billion in

financing for capital projects benefiting low-income families in developing countries. At the same time, over the years, the program has introduced developing country borrowers to the U.S. capital markets and has facilitated productive relationships with the U.S. investment community.

The program is active in more than 20 countries and is targeted, as is other USAID assistance, to a mix of low, middle, and transitional income countries. There are multi-year guaranties approved and in implementation in Asia (India, Indonesia, Sri Lanka and Thailand), the Near East (Morocco and Tunisia), Eastern Europe (Poland, Hungary and Czech Republic), Central America, and Southern Africa (South Africa and Zimbabwe). This program has been instrumental in the promotion of private sector financing for urban environmental infrastructure in three countries in Asia. Nowhere in the world is there a greater need for water and sanitation services for poor people than in the burgeoning Asian cities of India, Indonesia, and Thailand. The successful Kampung improvement program in Indonesia will provide sorely needed water and sanitation services and promote the establishment of local municipal bond markets, while building the potential for increased U.S. exports. In South Africa, guaranty subsidy costs of \$4,014,000 will leverage \$75 million in guaranteed loans for low-cost housing, which will be accompanied by another \$150 million in contributions from the private financial sector for the same purpose. This will result in 20,000 low-cost houses benefiting approximately 120,000 poor residents of South Africa's low-income neighborhoods. The program has been particularly effective in providing quick response support for U.S. Government foreign policy interests in such countries as South Africa and Poland.

In FY 1996, these programs will continue along with additional new projects in South Africa. About 70% of the program activities focus on the financing and management of urban environmental infrastructure and services, with the remaining 30% focusing on shelter in South Africa and Hungary.

Housing Guaranty Program, FY 1996

Country	HG Authorization Levels
<u>Asia and Near East</u>	
India	\$ 15,000,000
Indonesia	\$ 19,000,000
Morocco	\$ 10,000,000
Sri Lanka	\$ 4,000,000
Thailand	\$ 20,000,000
Tunisia	\$ 10,000,000
<u>Africa</u>	
South Africa (HG-II)	\$ 23,000,000
South Africa (HG-III)	\$ 20,000,000
<u>Europe and the New Independent States</u>	
Czech Republic	\$ 10,000,000
Hungary	\$ 10,000,000
<b>Total:</b>	<b>\$141,000,000</b>

## Micro and Small Enterprise Development Program

FY 1996 Micro and Small Enterprise Development Program Request:

● Guaranty Subsidy.....	\$1,800,000
● Direct Loan Subsidy.....	\$ 200,000
● Administrative Expenses.....	\$ 500,000

Broad-based, sustainable, economic growth requires an expanding private sector, including a thriving small business sector. The success of micro and small businesses, and their participation in the benefits of economic development, depend, in large part, on their ability to access financing to support viable business ventures. The Micro and Small Enterprise Development (MSED) program, the successor to the Private Sector Investment Program, works with private financial institutions to correct "market imperfections" inhibiting the flow of credit to small businesses in developing nations worldwide. To date, the programs have supported in excess of \$350 million in private sector activities, substantially to support small businesses and, increasingly, microenterprises. Currently, there are 62 projects in Asia, Africa, Latin America and the Caribbean, and the Near East.

The MSED program strives to build sustainable links between financial institutions and micro and small enterprises lacking full access to formal financial markets. This is accomplished by issuing partial guaranties to creditworthy financial institutions in developing countries. The guaranties offer the financial institutions a risk-management tool which they use to lower their collateral requirements and to increase their micro and small lending portfolio. While USAID's other microenterprise programs primarily support nongovernmental organizations and their efforts to provide credit to the smallest borrowers, MSED goes a step further, helping successful small and microenterprises graduate to formal sector financing. For example, because of the MSED program, two participating banks in Sri Lanka have provided loans of up to \$1,000 to thousands of new borrowers who otherwise would not have had access to bank financing.

The MSED program's primary tool is the Loan Portfolio Guaranty (LPG) program, which provides loan guaranties covering up to 50% of the principal loss on a portfolio of small business loans, and up to 70% for micro-loans made by financial institutions. The guaranties are combined with training and technical assistance to improve the ability of banks to assess small and micro business credits, and to assist borrowers in preparing business plans to present to the banks. The program also will use direct loans and guaranties to provide capital for nongovernmental and private voluntary organizations (NGOs and PVOs) engaged in microenterprise lending activities and to create sustainable linkages between those NGOs and PVOs and financial institutions.

The MSED program's performance is to be measured by (1) the increase in micro and small business lending by participating financial institutions; (2) the improved capacity of indigenous financial institutions to engage in micro and small business lending; and (3) the increase in lending to PVOs and NGOs from the formal financial sector.

## Enhanced Credit Program

FY 1996 Enhanced Credit Program Request:

● Guaranty Subsidy.....	\$ 10,000,000
● Administrative Expenses.....	\$ 2,000,000

The Enhanced Credit Program (ECP) is a proposed new initiative intended to expand the use of market-rate loans and loan guaranties to support USAID's development agenda. The increased use of credit through the ECP will allow USAID to make more rational choices about the appropriate funding tool, i.e., loans, guaranties, or grants, for financing its development activities. It also will allow the Agency



to leverage its resources more effectively. For example, the \$10 million requested for the ECP in FY 1996 is expected to leverage approximately \$70 million in loans and guaranties.

All ECP projects will be consistent with existing USAID strategic objectives, whether in the area of economic growth, the environment, population and nutrition, or democracy. As a financing tool, the ECP will further the goals of mission projects by supporting viable projects with leveraged resources. As a result, the ECP credit authority will serve to enhance the results of existing and proposed USAID programs. For example, contemplated uses for the ECP include:

- Loan guaranty facilities to support the goal of indigenous enterprise development in Africa;
- Bond guaranty facilities to support locally financed water and waste water services to improve health and to protect the environment; and
- Credit facilities to support privately operated and environmentally sound, energy co-generation projects.

In addition to the development-based indicators which must be established for all mission projects, depending on project goals, there are three performance indicators by which all ECP projects would be measured: (1) repayment rates on direct loans, (2) claims against guaranteed loans, and (3) satisfactory economic and financial rates of return. The ECP also will be expected to achieve the type of leverage obtained by the Agency's existing credit programs -- approaching 10:1, but no less than 3:1 on any single project.

## INTERNATIONAL DISASTER ASSISTANCE

**FY 1996 REQUEST . . . . . \$200,000,000**

The International Disaster Assistance program of the United States assists the growing number of persons affected by natural and man-made disasters. The FY 1996 funding request consists of \$200 million for International Disaster Assistance, including \$25 million to support the Transition Initiative which is in its second year. The FY 1996 request also includes funding for assistance to the Kurdish refugees in northern Iraq, funded in prior years through the Defense appropriations. The Administration also is requesting \$796 million for P.L. 480 Title II programs, of which approximately half will be devoted to emergency response.

Demands on U.S. funding for emergency humanitarian assistance continue to increase in the 1990s. The median annual level for international disaster assistance in the 1980s was approximately \$51 million. The average assistance level for the first half of this decade was \$127 million. Similarly, Emergency Title II feeding programs increased from \$386 million in FY 1991 to \$494 million in FY 1994.

The number and intensity of disasters have been rising, and the upward trajectory of humanitarian assistance requirements is projected to continue. Complex emergencies--those involving political and military conflict--are a major contributor to these trends. Although these conflicts change in intensity, their resolution is very difficult, and relief assistance can be necessary to meet emergency needs of civilian populations for long periods. Large populations in Angola, Bosnia, Liberia, Somalia, and Sudan continue to require assistance to survive. Over 50% of assistance to complex emergencies goes to African countries.

Parallel to increases in the number of persons affected by complex emergencies, rapid population growth in many developing countries increases the numbers vulnerable to natural hazards such as earthquakes, hurricanes, tornadoes, and volcanoes. Urban areas are expanding, with unsafe habitation in many shanty areas and slums. Also, people move onto marginally viable and unsafe lands where natural hazards such as hurricanes, earthquakes and volcanoes, and their side effects, such as flooding and lahars, have disastrous human impact.

The goal of USAID humanitarian assistance is to save lives and minimize suffering. However, USAID must also work to prevent these costly crises, and to assist countries to move from crisis to development. Humanitarian assistance programs are increasingly integrated with development programs to support this process.

There are three important principles that guide USAID's humanitarian assistance.

First, emergency response, which aims at saving lives and reducing suffering, can simultaneously assist the return to sustainable development by supporting local capabilities, providing safety nets, and strengthening human capacity. Programs in maternal and child feeding, emergency health care, and shelter provision can each be administered in ways that contribute to the regeneration of communities and to regional stabilization. The provision of agriculture seeds, along with relief food, to disaster victims in farming areas enables these producers to return to self-sufficiency. Medical emergency programs which draw on local medical staff and encourage on-the-job training, when feasible, are more likely to reduce the need for external resources in the future.

A second principle is that prevention and mitigation of the effects of disasters must be built into response programs. Prevention requires strengthening local response capacities. Disaster

preparedness requires careful examination of relief and recovery planning. USAID's field missions play an important role in helping government, municipal, and community leaders to prepare for disasters and to design development projects that fully reflect the risk from disasters.

A third guiding principle is the importance of ensuring that countries make successful transitions out of crises. Countries experiencing a significant political transition, national conflict, or a major national disaster, such as a prolonged drought, may have special needs which are not addressed by traditional disaster response. Nor do these countries generally have the infrastructure that allows the resumption of long-term programs of sustainable development. The Transition Initiative responds to these needs, funding programs, for example, in the re-integration of dislocated populations, including demobilized soldiers, or the retraining of local police to restore security, and the creation and revitalization of political and civic institutions.

Effective humanitarian assistance requires that USAID relief, mitigation, transition and development programs support each other, as described above. USAID does respond effectively. We must also collaborate with the international assistance community; the burden of spiraling costs of relief aid must be shared. U.S. private voluntary organizations (PVOs) play an essential role in raising resources, providing assistance, and implementing programs; USAID has a successful partnership with U.S. PVOs and NGOs. Mechanisms to facilitate the exchange of information among PVOs and the international donors and to prevent duplicative efforts must be supported.

Most importantly, in developing countries, governments, communities, and other institutions must take greater responsibility for identifying vulnerabilities and establishing response systems to reduce these vulnerabilities. Indigenous nongovernmental organization (NGOs) and the local private sector can be critical partners in formulating and implementing participatory, community-level programs for disaster prevention, mitigation, preparedness, relief, rehabilitation, and reconstruction. USAID supports these indigenous solutions to crisis prevention, response, and recovery.

Pursuant to section 493 of the Foreign Assistance Act of 1961, as amended, the President has designated the USAID Administrator as his Special Coordinator for Disaster Assistance. USAID has a well-established management structure and disaster relief expertise, which draw on public and private sector resources to enable a response within 24 to 72 hours after a disaster declaration. USAID field missions and U.S. Government assessment teams identify needs, and USAID provides disaster assistance response teams (DARTs), communication support, search and rescue groups, medical assistance, shelter, food and potable water.

USAID works closely with the Department of State and the Department of Defense to coordinate American relief efforts. For urgent disaster situations, 24-hour coverage is provided by staff to ensure the transmission of accurate information across different agencies, and between the disaster area and important response centers. In larger, critical and complex emergencies, DARTs are dispatched to the field to facilitate communication and to direct the emergency response. Satellite communication equipment augments USAID's ability to carefully target emergency assistance and to coordinate with donors and other USG agencies. Cost-effectiveness and timeliness are important benchmarks of USAID humanitarian assistance.

The complex disaster means prolonged provision of relief assistance to affected populations. Many such emergencies are occurring in sub-Saharan Africa. New strategies have been developed to help begin to restore food security based on self-reliance in these areas. Seeds and simple tools may be supplied to initiate this move away from dependency on relief supplies. Interventions which encourage local participation and contributions from able-bodied persons are designed and implemented. The Greater Horn of Africa is a particularly disaster-prone area, drawing over 50% of the emergency funds to Africa. The United States has focused on this region with an initiative which includes collaboration with other donors and African leaders and institutions to head off

skyrocketing humanitarian needs. Humanitarian assistance strategies, in collaboration with development strategies, will contribute to crisis prevention in the Greater Horn of Africa.

The increase in complex and prolonged disasters has led to other strategy changes in humanitarian assistance. The Transition Initiative has provided a mechanism to rapidly assess and address short-term political and economic needs in the important recovery stage. Key areas for the Transition Initiative include the demobilization and reintegration of soldiers, electoral preparations and governance, and civil infrastructure, including local security. The transition program in Haiti promotes stability through demobilization, emphasizing skills development for ex-military personnel, and through efforts to create and strengthen civil governance structures. Demobilization is also an important element of the transition program in Angola where militarization continues to represent a threat to a stable recovery. And in the former Yugoslavia, a transition program has worked with Muslim and Croat communities to reduce ethnic conflict through the joint participation of various ethnic groups in economic enterprises. These interventions are fundamental to the successful recovery of these countries from political and natural crises.

USAID's humanitarian assistance saves lives and reduces suffering. In the long run, however, it is clear that prevention and mitigation of natural and man-made disasters are more cost-effective. Disaster preparedness, mitigation and prevention programs are an important element of effective, sustainable development strategies. Important activities in these areas include drought and famine mitigation programs, conflict mitigation, earthquake risk-management, volcano monitoring and evacuation plans, and training in disaster management. USAID supports these activities in disaster-prone countries where prevention has a high payoff.

## FOOD FOR PEACE

**FY 1996 P.L. 480 TITLE II REQUEST . . . . . \$795,703,000**  
**FY 1996 P.L. 480 TITLE III REQUEST . . . . . \$ 50,000,000**

Since P.L. 480 was enacted in 1954, the Food for Peace program has demonstrated the American people's commitment to combatting world hunger and poverty. America's bounty has saved the lives of millions of people in more than 150 countries and territories. In much of Latin America and parts of Asia, where hunger once dominated daily life, basic food security -- regular access to sufficient food for a healthy and productive life -- has been established, and sustainable development has begun. Now we face a final challenge in the poorest countries of the world, many of which are in Africa.

USAID is responsible for the Title II and Title III programs. Title II food programs can be used either for development or emergency feeding. Title II development programs provide food aid grants which are implemented by private voluntary organizations (PVOs) or the World Food Program (WFP). Title II emergency programs are focused on direct feeding activities to respond to short-term, unanticipated food shortages and may be implemented by PVOs, the WFP or on a government-to-government basis. Title III funds government-to-government grants for development activities. Title III programs normally include policy reform conditions and frequently generate local currencies for development projects.

### Title II Emergency and Private Voluntary Organization Assistance Programs

P.L. 480 Title II is a people-to-people program, from the people of the United States to people who do not have access to sufficient food to meet their needs for a healthy and productive life. In FY 1994, Title II food assistance directly benefited 60 million poor people. Of that number, 24 million were disaster victims and 36 million were beneficiaries of development projects. Most were women and children, the victims of war or drought, or participants in nutrition and health improvement schemes, or in primary education and training programs. The hungry poor who received Title II assistance also included landless agricultural workers, small farmers and the urban poor who live with insufficient food and not enough money to buy the food needed for themselves and their families.

USAID's Title II program is implemented in partnership with U.S. private voluntary organizations (PVOs), international and local nongovernmental organizations (NGOs), such as the International Committee of the Red Cross (ICRC), and United Nations (UN) agencies such as the High Commissioner for Refugees (UNHCR), World Food Program (WFP) and the United Nations Children's Fund (UNICEF). Title II emergency assistance is also provided on a government-to-government basis.

Title II works in the following areas:

- In crisis, Title II performs the most basic of functions; it saves lives. Drought, flood, and the ever increasing number of disasters caused by ethnic conflict and political strife often lead to life-threatening food needs.
  
- Title II school and preschool feeding programs perform more than the obvious task of increasing children's nutritional intake. School enrollment and attendance increase, leading to improved educational benefits. An educated population is less likely, in the long run, to be a poor population.

-- Title II feeding programs at health centers encourage mothers to bring in their children. At these centers, children are immunized and mothers receive training in nutrition, health, family planning, community leadership, and even literacy.

-- In Title II food-for-work efforts, impoverished people are paid in food for their work on projects that will improve their productivity or ability to deliver their produce to markets while increasing economic opportunities for themselves and their neighbors. These projects include farm-to-market roads, water systems for irrigation and consumption, food storage facilities and flood prevention embankments.

The following constitute examples of Title II programs implemented in FY 1994:

-- A food-for-work program in Bangladesh, implemented by CARE, provided food as wages to 525,000 workers (and their dependents) who upgraded roads to improve and speed delivery of their produce to local markets. On food-for-work activities in Bangladesh, one observer remarked: "There was on the one hand...an army of unemployed and on the other a crying need for earthwork. Here was a program to put them together as a key is put into a lock."

-- An emergency program conducted by Catholic Relief Services in Sierra Leone for displaced victims of civil strife; malnutrition dropped from 16% to 11%.

-- In the former Yugoslavia where World Food Program (WFP) began operations in November 1992, Title II resources contributed nearly 200,000 metric tons of emergency assistance this past year, used primarily in feeding an estimated 2.7 million displaced and war-affected people within Bosnia-Herzegovina.

-- In India, where over 70 million children under five are severely malnourished, U.S. PVO and WFP Title II assistance fed nearly 13 million mothers and children in FY 1994, mostly through the national government's Integrated Child Development Services Scheme (ICDS) which involves substantial monetary and personnel support from the host government and is the largest mother-child care program of its kind in the world.

-- In Angola, despite escalations in conflict, numerous suspensions of relief flights, enormous physical and logistical constraints, and non-respect by the warring parties for the provisions of international humanitarian law, WFP and U.S. PVOs consistently strove to deliver food assistance to some 2 million war-affected people. As is often the case, those most needing food assistance were the vulnerable groups in the besieged cities of the central and northern highlands -- the hardest populations to reach.

-- In Ethiopia, where half of the country's 53 million population lives in abject poverty with a per capita gross national product (GNP) of \$120, the third lowest in the world, World Vision has successfully used local currencies generated from sale of Title II commodities to support rehabilitation of farms and increased agricultural productivity, meaning that the partner communities are better able to withstand recurring droughts.

-- In Haiti, the only country classified as least developed in the Latin America and Caribbean region, Title II feeding programs reached nearly one million of the poorest and most vulnerable people on a daily basis, working exclusively through U.S. PVOs, the UN and local NGOs.

-- The horrifying massacres which commenced this past April in Rwanda generated over 4 million refugees living in makeshift camps across the Zairean, Tanzanian and Burundian borders, and another 2 million people displaced from their homes within Rwanda. FY 1994 Title II food aid fed both groups.

-- Peace has at long last come to Mozambique. Title II programs this past year were instrumental in feeding both internally displaced persons and over a million returning refugees. Food-for-work programs for school construction, road demining and repair, cleaning and repair of irrigation canals and wells, and construction of health clinics all helped the Mozambican people recover from a decade and a half of heinous civil strife.

While the achievements are significant, the challenge of attaining sustainable food security, a foundation of economic development, remains daunting. Food insecurity continues to affect millions of people. USAID, through its use of Title II resources, has contributed effectively to both short and long-term food security, which is defined as "access by all people at all times to the food needed for a healthy and productive life." The urgency and magnitude of the needs related to food security call for continuing and unwavering U.S. leadership -- and food aid. Commitments through Title II assistance will be key in mobilizing further support from the international donor community, recipient governments, the private sector, and NGOs in assisting national food adequacy in the developing world.

The Title II program also makes significant contributions to America. Thousands of farmers, millers, processors, packagers and shippers throughout the United States are employed in the production of commodities used in overseas food aid programs. In FY 1994 P.L. 480 Title II shipped 1,651,050 metric tons (MT) of U.S. grown cereals, 156,815 MT of bagged rice, 140,085 MT of vegetable oil, 84,940 MT of beans, 31,550 MT of lentils and 27,709 MT of peas overseas.

For FY 1996, USAID will continue to allocate the Title II food aid resources to the most food insecure countries and to impoverished and food insecure people. A "management for results" strategy is being jointly developed with cooperating U.S. PVOs which will shift the focus from inputs and food aid distribution to the results of food aid interventions. In the future, as much attention will be devoted to measuring and quantifying program results as has been historically devoted to food aid delivery. Priority will be given to supporting disaster prevention, preparedness and mitigation and post-disaster rehabilitation activities as part of development programs. Conversely, emergency assistance will be used to the extent possible to serve both relief and development purposes. In both cases, the overall aim is to save lives and build self-reliance.

In the Greater Horn of Africa initiative, the United States Government will exercise leadership to integrate emergency assistance and development programs to attack the root causes of food insecurity. Emergency food aid will be aimed not just at meeting emergency food needs, but where possible, at the rehabilitation of local productive capacity, focused on agriculture and livestock, and in developing local capacity in health and household nutrition.

With the expected continued modest or non-availability of section 416(b) surplus commodities, emergency food aid needs are expected to remain a significant share of Title II budgetary allocations. FY 1994 Title II budget outlays for emergencies worldwide equaled \$494 million.

Due to fiscal constraints, the 16th Biennium Pledge by the United States for 1995-96 to the World Food Program has been scaled downward to \$300 million from the previous pledge of \$350 million. Of the \$300 million, 60% (\$180 million) is earmarked for protracted refugee and internally displaced person operations, and the remainder (\$120 million) for development projects.

### Title III Food for Development.

The P.L. 480 Title III program is an important USAID instrument for enhancing food security in least developed countries. Despite economic growth and increased global food supplies, malnutrition persists in many countries, particularly in Africa. Due to budgetary constraints and the need to give priority to Title II humanitarian assistance, Title III has been reduced from prior years. USAID is

directing its proposed \$50 million in FY 1996 Title III resources to those countries most in need and will concentrate on policy reform and other programs necessary to enhance agricultural productivity and improve household nutrition. Examples of desired policy reforms include: changing agricultural pricing policies that are unfavorable to producers and discourage productivity-enhancing technologies, ending import and export policies that reduce investment in agricultural enterprises, ending restrictions on the development of free internal markets, and generating investments in rural infrastructure which support economic growth. Local currencies generated from Title III programs might be used to help reform practices that limit consumption of an adequate diet by certain groups or family members, for programs to improve local storage or creation of emergency food reserves, and for urban "social safety net" programs.

For FY 1996, Title III programs are proposed for Ethiopia, Mozambique and Haiti.

Title III achievements in FY 1994 included:

-- In Bolivia, Title III local currency funded investments in agricultural research, and extension and loans resulted in increasing domestic wheat production to 25% of consumption. Other benefits included increased employment opportunities and improved conservation of the natural resource base (farmland).

-- In Haiti, Title III food imports stabilized prices for wheat flour during a period of intense internal crisis, thereby keeping food more affordable to highly vulnerable populations.

-- In Honduras, the removal of price controls increased food availability, and corresponding agricultural policy reforms helped increase domestic production by 15%.

-- In Mozambique, Title III commodities fostered expanded private sector marketing networks throughout the countryside, which led to creating a greater demand for national production, while at the same time Title III food aid (yellow maize) fed the poorest segment of the urban population.

Food for Peace funding also is used for a worldwide farmer-to-farmer program, which provides short-term technical assistance from U.S. farmers and agribusinessmen, and for logistical and management support for the PVOs which implement Title II food aid activities.

See Summary Tables volume for P.L. 480 program detail, including dollar and metric tonnage levels broken out by type of program by region and by country.



## USAID OPERATING EXPENSES

**FY 1996 REQUEST:.....\$ 529,000,000**

The Operating Expense (OE) appropriation finances the salaries and support costs of personnel responsible for managing the sustainable development, humanitarian assistance and food aid programs of the U.S. Government worldwide as well as programs to support peace and democracy in such places as the Middle East, Central and Eastern Europe and the former Soviet Union. The FY 1996 funding requested for Operating Expenses will fund personnel and support costs required to manage a requested program level of \$6,948,503,000--for an overhead rate for USAID programs of 7.6%.

The FY 1996 appropriation request of \$529,000,000 will support a total cost of operations for USAID in FY 1996 of \$580,388,000, the balance of funds being derived from local currency trust funds, reimbursements, and prior year recoveries carried forward to FY 1996. While the FY 1996 appropriation request for OE is \$11.5 million higher than the FY 1995 level, total FY 1996 resources available for OE-related costs are \$17.2 million (2.8%) lower than for FY 1995, due primarily to the loss of local currency trust funds.

USAID volunteered its entire operation as a reinvention laboratory--the only Agency to do so--under Vice President Gore's Reinventing Government Program. As such, USAID is making substantial changes in every aspect of its operations from program focus to procurement, to personnel, to financial management, and to the very heart of the Agency -- its project process. Most of the reforms will be in place by October 1, 1995.

These reforms include:

- **Closing 21 overseas missions**, with an additional six closures currently being planned. Six of these posts are already closed and the rest of the 21 will be shut down by September, 1996.
- Reengineering the Agency's project design and implementation systems to **reduce the time** from project idea to implementation from the current 27 months to 6 months.
- Focusing the Agency's programs on obtaining **measurable results** at the Agency, regional and country levels rather than on the inputs of specific amounts of funds to accomplish discrete project goals.
- Reorganizing and streamlining Washington headquarters, including the **elimination of 90 (25%) of its organizational units**.
- **Reducing total staff resources** by 7.5% between FY 1994 and FY 1996. The Agency is reviewing its overseas operations to determine the impact of reengineering on overseas staffing requirements and organizational structures. It is anticipated that the new systems will permit some additional reductions in overseas staffing.
- **Reducing senior management positions** by 26%, with a further 10% reduction planned by the end of FY 1996.
- **Streamlining USAID's procurement process** and opening it up to as broad array of qualified applicants as possible.
- Developing a **new financial management system** that consolidates 11 separate accounting systems into one and will bring greater transparency and accountability to the Agency's operations.

In FY 1996, USAID will begin its move into the Federal Triangle Building, the move to be completed by December 31, 1996. The Agency currently occupies nine buildings. This move will mark the first time in the Agency's history that its headquarters staff has been located in a single building. The FY 1996 costs associated with this move are estimated at \$18.2 million (including about \$4 million in rental costs). The consolidation of staff will have significant benefits for the Agency, including:

- Improved communications among and between staff and managers;
- Elimination of duplication in support functions which currently have to be provided in two or more of the nine buildings currently being occupied;
- Reduced staff time lost due to travel among the many office buildings; and
- Improved management oversight of administrative operations, currently scattered among the various locations.

The Agency will begin to recoup substantial savings from mission closeouts, the move to the new building, and the implementation of the new management systems in FY 1997.

**ALLOCATION OF OE COSTS - OVERSEAS & WASHINGTON  
(DOLLARS IN THOUSANDS)**

<u>Category/Location</u>	<u>FY 1994 Actual</u>	<u>FY 1995 Estimate</u>	<u>FY 1996 Request</u>
<b>Overseas Costs</b>			
U.S Direct Hire Salaries and Benefits	104,140.5	106,418.0	107,117.0
Other U.S. Direct Hire Costs	24,508.6	27,678.0	26,377.0
Foreign National Direct Hire Salaries and Benefits	16,825.8	16,700.0	15,637.0
Contract Personnel	67,762.0	68,249.0	64,179.0
Housing Costs	28,182.1	30,290.0	30,102.0
Office Operations	55,808.1	59,374.0	55,117.0
Non-Expendable Property	18,954.5	14,415.0	16,053.0
Foreign Affairs Administrative Support	15,594.5	16,088.0	16,088.0
Overseas Automated Data Processing Maintenance	1,371.6	441.0	418.0
Staff Training	1,700.0	2,425.0	2,050.0
Support for Dependent Education	1,500.0	1,500.0	1,750.0
Other Payments	<u>6,013.5</u>	<u>6,765.0</u>	<u>6,486.0</u>
<b>Subtotal Overseas Costs</b>	<b><u>342,361.2</u></b>	<b><u>352,343.0</u></b>	<b><u>341,374.0</u></b>
<b>Washington Costs</b>			
U.S Direct Hire Salaries and Benefits	134,457.1	142,354.0	147,372.0
General Support Services	28,294.5	27,967.0	24,074.0
IRM Support Services	27,314.0	30,075.0	26,923.0
Headquarters Bureaus and Offices	14,126.2	15,953.0	15,901.0
Staff Training	1,700.0	2,425.0	2,050.0
Other Payments	<u>7,280.5</u>	<u>7,191.0</u>	<u>3,734.0</u>
<b>Subtotal Washington Costs</b>	<b><u>213,172.3</u></b>	<b><u>227,965.0</u></b>	<b><u>220,054.0</u></b>
<b>Subtotal Recurring Costs</b>	<b><u>555,533.5</u></b>	<b><u>580,308.0</u></b>	<b><u>561,428.0</u></b>
<b>Other Costs</b>			
Federal Triangle Building	7,636.9	5,980.0	18,185.0
Real Property Overseas	<u>2,894.2</u>	<u>11,297.0</u>	<u>775.0</u>
<b>Subtotal Other Costs</b>	<b><u>10,531.1</u></b>	<b><u>17,277.0</u></b>	<b><u>18,960.0</u></b>
<b>TOTAL OBLIGATIONS</b>	<b><u>566,064.6</u></b>	<b><u>597,585.0</u></b>	<b><u>580,388.0</u></b>

**FUNDING SOURCES FOR USAID OPERATING EXPENSES  
(DOLLARS IN THOUSANDS)**

<u>Category</u>	<u>FY 1994 Actual</u>	<u>FY 1995 Estimate</u>	<u>FY 1996 Request</u>
Appropriated Operating Expenses	504,760.0	517,500.0	529,000.0
Appropriation Transfers	12,600.0	0.0	0.0
Reimbursements	5,029.0	5,500.0	6,000.0
Local Currency Trust Funds (Regular)	41,589.7	40,370.0	35,586.0
Local Currency Trust Funds (Real Property)	12,586.6	11,297.0	775.0
Unobligated Balances Available Start of Year	8,671.0	21,953.0	9,000.0
Recovery of Prior Year Obligations	11,573.0	9,000.0 *	9,000.0 *
Israeli Guaranty Administrative Expenses	0.0	27.0	27.0
Prior Year Program for OE Carried Forward	270.4	938.0	0.0
Deobligation/Reobligation Authority	<u>1,336.9</u>	<u>0.0</u>	<u>0.0</u>
<b>Total Funding Availability</b>	<b><u>598,416.6</u></b>	<b><u>606,585.0</u></b>	<b><u>589,388.0</u></b>
OE Balances Carried Forward (Recoveries)	11,573.0	9,000.0	9,000.0 *
OE Balances Carried Forward (Regular)	10,380.0	0.0	0.0
Trust Funds Carried Forward (Real Property)	10,015.0	0.0	0.0
Unobligated Balances Expiring	<u>384.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Total Obligations</b>	<b><u>566,064.6</u></b>	<b><u>597,585.0</u></b>	<b><u>580,388.0</u></b>

- \* These entries were inadvertently omitted from the President's Budget. The omission did not impact on the FY 1996 OE request or obligation level shown in the President's Budget, which is the same as shown here.

**USAID WORKFORCE LEVELS \***

<u>Category</u>	<u>FY 1994 Actual</u>	<u>FY 1995 Estimate</u>	<u>FY 1996 Request</u>
<b>Washington Headquarters:</b>			
U.S. Direct Hire	1,905	1,955	1,955
U.S. Personal Service Contractors	<u>103</u>	<u>103</u>	<u>103</u>
<b>Subtotal Washington</b>	<b><u>2,008</u></b>	<b><u>2,058</u></b>	<b><u>2,058</u></b>
<b>Overseas:</b>			
U.S. Direct Hire	1,004	974	974
U.S. Personal Service Contractors	505	479	457
Foreign National Direct Hire	715	635	625
Foreign National Personal Service Contractors	<u>4,886</u>	<u>4,558</u>	<u>4,318</u>
<b>Subtotal Overseas</b>	<b><u>7,110</u></b>	<b><u>6,646</u></b>	<b><u>6,374</u></b>
<b>Worldwide Totals:</b>			
U.S. Direct Hire	2,909	2,929	2,929
U.S. Personal Service Contractors	608	582	560
Foreign National Direct Hire	715	635	625
Foreign National Personal Service Contractors	<u>4,886</u>	<u>4,558</u>	<u>4,318</u>
<b>Total Worldwide</b>	<b><u>9,118</u></b>	<b><u>8,704</u></b>	<b><u>8,432</u></b>

- \* Data on direct hire is in Full-Time Equivalent (FTE) workyears for OE funded personnel only. Data on personal service contractors represents end-of-year on-board levels for OE and program funded personnel only.

**OPERATING EXPENSES OF INSPECTOR GENERAL**

**FY 1996 Request:** ..... \$ 39,118,000

The FY 1996 budget request of \$39,118,000 for the operating expenses of the Inspector General provides the necessary resources to finance audits and investigations designed to promote economy and efficiency, to detect fraud and abuse in USAID programs, and to administer the USAID worldwide security program. This request represents a straightlining of the FY 1995 appropriation level.

The Office of Inspector General (OIG) has absorbed increased costs associated with: (1) expanded Quality Control Reviews regarding office of Management and Budget Circular A-133 audits of USAID recipients; (2) continuance and augmentation of Chief Financial Officer operations that require audits of the Micro and Small Enterprise Development Program, Israeli Loan Guaranty Program, Foreign Service National Trust Fund, Housing Guaranty Program, Property Management Program and U.S. Miscellaneous Dollar Trust Fund; (3) procurement, shipment and installation of office physical security systems and security communications systems; (4) mandatory cost increases for Department of State Foreign Affairs Administrative Support costs; (5) additional travel requirements directly related to audits and investigations in the New Independent States of the former Soviet Union, Eastern Europe, and the West Bank and Gaza; and (6) requirements to provide light armoring for USAID-purchased vehicles and to continue the second phase of a five-year plan to replace the aging fleet of fully armored vehicles.

At the same time, the OIG is taking a number of steps to reduce costs and permit continuation of the OIG operations in FY 1996 at the FY 1995 budget level. These actions consist of: implementing an IG-wide reorganization that includes consolidation of duplicative functional responsibilities and reductions in administrative and operational costs; reducing the number of Senior Foreign Service designated positions; decreasing U.S. direct-hire personnel and U.S. and Foreign National personal service contractors; and reducing the number of managers and supervisors in our personnel ceiling.

**INSPECTOR GENERAL OPERATING EXPENSES  
(DOLLARS IN THOUSANDS)**

<u>Category</u>	<u>FY 1994 Actual</u>	<u>FY 1995 Estimate</u>	<u>FY 1996 Request</u>
Personnel Compensation	17,024	17,426	17,649
Personnel Benefits	4,234	4,507	4,530
Travel and Transportation	3,390	3,438	3,499
Transportation of Things	978	1,071	880
Rent, Communications and Utilities	3,325	3,297	3,357
Printing	57	62	63
Other Services	7,645	7,690	7,720
Supplies and Materials	257	231	255
Equipment	<u>1,863</u>	<u>1,396</u>	<u>1,165</u>
Total Obligations	<u><b>38,773</b></u>	<u><b>39,118</b></u>	<u><b>39,118</b></u>

**INSPECTOR GENERAL WORKFORCE LEVELS**

<u>Category</u>	<u>FY 1994 Actual</u>	<u>FY 1995 Estimate</u>	<u>FY 1996 Request</u>
<b>Direct Hire Employees:</b>			
U.S. Direct Hire	236	232	235
Foreign National Direct Hire	<u>5</u>	<u>5</u>	<u>0</u>
Subtotal Direct Hire	<u><b>241</b></u>	<u><b>237</b></u>	<u><b>235</b></u>
<b>Personal Service Contractors:</b>			
U.S. Personal Service Contractors	12	11	0
Foreign National Service Contractors	<u>78</u>	<u>76</u>	<u>70</u>
Subtotal Contractors	<u><b>90</b></u>	<u><b>87</b></u>	<u><b>70</b></u>
Total Workforce Levels	<u><b>331</b></u>	<u><b>324</b></u>	<u><b>305</b></u>

**NOTES:**

1. Data on direct hire is in full-time equivalent (FTE) workyears for IG funded personnel only.
2. Data on personal service contractors represents end-of-year, on-board levels for IG.

**FOREIGN SERVICE RETIREMENT AND DISABILITY FUND**

**FY 1996 REQUEST:..... \$ 43,914,000**

In FY 1974, amendments to the Foreign Assistance Act of 1961, as amended, permitted USAID career foreign service employees to become participants in the Foreign Service Retirement and Disability Fund. The extension of coverage to USAID employees created an unfunded liability in the system. An actuarial determination by the Department of the Treasury shows that, in FY 1996, \$43,914,000 will be required to amortize this liability and the unfunded liability created by pay raises and benefit changes since FY 1974. This appropriation is authorized by Chapter 8 of the Foreign Service Act of 1980.

## GLOSSARY OF TERMS

The glossary defines legislative, administrative, programming and budget terms referred to in the presentation. Underscored terms in the definitions are defined elsewhere in the glossary. Frequently used abbreviations are included.

Activity: Project or task required to carry out a program. The word "activity" is used for any activity or unified group of activities, programs, projects, types of material assistance or other operations, and refers to both project and non-project assistance.

Actual Year: Last completed fiscal year; in this case, FY 1994.

Appropriation: An act of Congress permitting Federal agencies to incur obligations for specified purposes, e.g., Foreign Operations, Export Financing and Related Programs Appropriation Act, 1995.

Appropriation Accounts: The separate accounts for which specific dollar amounts are authorized and appropriated.

Authorization: Substantive legislation which establishes legal operation of a Federal program, either indefinitely or for a specific period, and sanctions particular program funding levels, e.g., the Foreign Assistance Act of 1961, as amended (FAA).

Bilateral Assistance: Economic assistance provided by the United States directly to a country or through regional programs to benefit one or more countries indirectly. (USAID assistance and most P.L. 480 food aid are among the U.S. bilateral programs. Others include Peace Corps and International Narcotics Control.)

Budget Authority: Authority provided by law to enter into obligations which result in outlays of government funds. The funds are composed of the appropriated levels, reobligations of deobligations, and transfers from or to other accounts.

Budget Year: Year of budget consideration; in this case, FY 1996.

Continuing Resolution: A joint resolution passed by the Congress to provide stop-gap funding for agencies or departments whose regular appropriations bills have not been passed by Congress.

Cooperatives: A business voluntarily owned and controlled by its users and operated for their benefits.

Credit Programs: Loans and guaranties made at market rates, in support of the goals of the Foreign Assistance Act of 1961, as amended. They include the Housing Guaranty Program (section 222 of the FAA), the Micro and Small Enterprise Program (section 108), and the newly proposed Enhanced Credit Program.

Deobligations: Unexpended funds obligated for a specific activity which are subsequently withdrawn following a determination that they are no longer required for that activity.

Development Assistance: Assistance under Chapter I of the Foreign Assistance Act of 1961, as amended, primarily designed to promote economic growth and the equitable distribution of its benefits.

Development Assistance Committee (DAC): A specialized committee of the Organization for Economic Cooperation and Development (OECD). The purpose of the DAC is to secure an expansion of the aggregate volume of resources made available to developing countries and to improve their effectiveness. Member countries jointly review the amount and nature of their contributions to bilateral



and multilateral aid programs in the developing countries. DAC members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Economic Communities.

Development Fund for Africa. Assistance under Chapter 10 of Part I of the Foreign Assistance Act of 1961, as amended, for long-term development of sub-Saharan Africa.

Development Loan: Development assistance which must be repaid, usually a long-term, low-interest loan repayable in U.S. dollars.

Economic Assistance: Bilateral and multilateral foreign assistance designed primarily to promote economic growth in recipient countries. Military assistance, Export-Import Bank activities, Overseas Private Investment Corporation programs and Commodity Credit Corporation short-term credit sales, which have primary purposes other than economic development, are not included in this category.

Economic Support Fund: An appropriation account for funding economic assistance to countries based on considerations of special economic, political or security needs and U.S. interests. It took the place of Security Supporting Assistance, as provided in Section 10(b)(6) of the International Security Assistance Act of 1978 (92 STAT 735).

Expenditures: As reported in this document, represent the total value of goods and services received, disbursement for which may not have been made. Disbursements, also referred to as actual expenditures or outlays, represent funds paid from the U.S. Treasury.

Fiscal Year: Yearly accounting period, without regard to its relationship to a calendar year. The fiscal year for the U.S. Government begins October 1 and ends September 30.

Foreign Assistance Act (FAA): The Foreign Assistance Act of 1961, as amended, which is USAID's present authorizing legislation.

Foreign Operations, Export Financing and Related Programs Act: The Appropriations Act for a particular year for economic and military assistance and Export-Import Bank. It excludes P.L. 480 food aid, which is appropriated in separate legislation.

FREEDOM Support Act. The legislation (Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992, P.L. 102-511) that provides authorization to support freedom and open markets in the New Independent States of the former Soviet Union.

Grants: Assistance to an organization to carry out its activities as opposed to the acquisition of services for USAID or a host country which need not be repaid. (Term also describes a funding instrument for programs of an institution or organizations, e.g., International Executive Service Corps or an international agricultural research center.)

Gross Domestic Product (GDP): Measures the total output of final goods and services produced by residents and non-residents during a given time period, usually a year. Earnings from capital invested abroad (mostly interest and dividend receipts) are not counted, while earnings on capital owned by foreigners but located in the country in question are included. The GDP differs from the GNP in that the former excludes net factor income from abroad.

Gross National Product (GNP): Measures the total output of final goods and services produced by a nation's factors of production, regardless of location of those factors, i.e., in the country or abroad, during a given time period, usually a year. Earnings from capital owned by nationals but located abroad

(mostly interest and dividend receipts) are included, while earnings in the country by factors owned by foreigners are excluded.

International Financial Institutions (IFIs): Currently known as multilateral development banks (MDBs). They are multilateral lending institutions which provide resources for development. They include the following: Asian Development Bank (ADB) and Fund (ADF), Inter-American Development Bank (IADB), International Bank for Reconstruction and Development (IBRD or the "World Bank"), International Finance Corporation (IFC), International Development Association (IDA), African Development Bank (AfDB) and Fund (AfDF), and European Bank for Reconstruction and Development (EBRD).

Loans: Assistance which must be repaid. Repayment terms for loans under Development Assistance and the Economic Support Fund are established by USAID in accordance with the Foreign Assistance Act of 1961, as amended (FAA), and the current Foreign Operations, Export Financing and Related Programs Appropriation Act. Loans are no longer provided under Development Assistance or Economic Support Funds, but are provided under credit programs. See credit programs.

Mortgage: The difference between the planned life of a project amount and obligation.

Multilateral Assistance: Assistance which the United States provides to less developed countries (LDCs) through multilateral development banks, the United Nations agencies, and other international organizations with development purposes.

Multilateral Development Banks: (MDBs): See international financial institutions.

New Obligational Authority: See appropriations.

Non-Project Assistance: Program or commodity loans or grants which provide budget or balance-of-payments support to another country. Such assistance is funded under the Economic Support Fund, the Development Fund for Africa, or the SEED and FREEDOM Support Acts.

Obligation: Legal commitment of funds through such mechanisms as signed agreements between the U.S. Government and host governments, contracts and grants to organizations and purchase orders.

Ocean Freight Reimbursements: Reimburses private and voluntary organizations (PVOs) for up to one half of their cost in shipping equipment and commodities overseas in support of their development programs.

Official Development Assistance (ODA): Assistance on concessional terms (with a grant element of at least 25%), provided by member countries of the Development Assistance Committee (DAC) to promote economic development in developing countries.

Operating Expenses: Those appropriated funds used to pay salaries, benefits, travel, and all support costs of direct-hire personnel. The "cost of doing business."

Operational Year: Fiscal year in progress (current year), presently FY 1995.

Organization for Economic Cooperation and Development (OECD): Organization of donor countries which promotes policies designed to stimulate economic growth and development of less developed countries (LDCs). OECD member countries are Australia, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Outlays: Cash disbursements from the Treasury which liquidate obligations.

**Participant:** USAID-sponsored less-developed country (LDC) national being trained outside his or her own country.

**Peacekeeping Operations:** The program authorized and appropriated for a special type of economic assistance for peacekeeping operations and other programs carried out in furtherance of the national interests of the United States.

**Pipeline:** The difference between net obligations and expenditures.

**P.L. 480:** The Agricultural Trade Development and Assistance Act of 1954, as amended, which governs administration of the U.S. Food for Peace program. (Term is often used to describe food aid.)

**President's Budget:** Budget for a particular fiscal year transmitted to Congress by the President in accordance with the Budget and Accounting Act of 1921, as amended.

**Private and Voluntary Organization (PVO):** A non-profit, tax-exempt and nongovernmental organization established and governed by a group of private citizens whose purpose is to engage in voluntary charitable and development assistance operations overseas.

**Program:** A coordinated set of USAID-financed activities directed toward specific goals. For example, maternal and child health, nutrition, education and family planning projects designed to promote the spacing of children may comprise a program to reduce infant deaths.

**Project:** A single activity designed to generate specific results. For example, a maternal and child health project may be designed to extend basic health services to 60% of children under five years of age in a poor, rural district of the recipient country.

**Reimbursement:** Collection of funds for services provided to recipients outside the Agency.

**Reobligations:** Obligation of an amount which had been obligated and deobligated in prior transactions.

**SEED Act:** The legislation (Support for East European Democracy Act of 1989, P.L. 101-179) that provides authorization to promote political democracy and economic pluralism in the countries of Central and Eastern Europe.

**Strategic Objective:** A measurable objective which is developmentally significant, whose achievement over the medium term (5-8 years) USAID is able to directly influence.

**Sustainable Development:** Economic and social growth that does not exhaust a country's resources; that does not damage the economic, cultural or natural environment; that creates incomes and enterprises; and builds indigenous institutions.

#### **Congressional Presentation (CP) Terms:**

**Green Book:** This publication is entitled U.S. Overseas Loans and Grants and Assistance from International Organizations. This data, which is grouped by country and geographic region, includes assistance from USAID, military assistance, P.L. 480, Export Import Bank, etc., from 1945 to the last completed fiscal year, in this case FY 1994. This publication is released at the time of or shortly after the Congressional Presentation is distributed.

**All Spigots Tables:** Tables which show U.S. economic and military assistance levels from all sources, broken out by program, region and country.

## ABBREVIATIONS AND ACRONYMS

AAFLI	-	Asian-American Free Labor Institute
ADB	-	Asian Development Bank
ADP	-	Automated Data Processing
AELGA	-	African Emergency Locust and Grasshopper Assistance
AERPR	-	African Economic Policy Reform Program
AERC	-	African Economic Research Consortium
AFL-CIO	-	American Federation of Labor - Congress of Industrial Organizations
AFTA	-	Asian Free Trade Agreement
AGRHYMET	-	African Regional Agroclimatological, Hydrological and Meteorological Institute
AIDS	-	Acquired Immunodeficiency Syndrome
AIDSCAP	-	AIDS Control and Prevention Project
AIFLD	-	American Institute for Free Labor Development
ANE	-	Asia and Near East
APEF	-	African Private Enterprise Fund
AREAF	-	African Electoral Assistance Fund
ASARED	-	Association for the Protection and Strengthening of Democracy
ATLAS	-	Advanced Training for Leadership and Advanced Skills
ASEAN	-	Association of Southeast Asian Nations
AVSEC	-	Aviation Security
AWACS	-	A.I.D. Washington Accounting and Control System
BCC	-	Behavior Change Communication
BDG	-	Bangladesh Government
BISNIS	-	Business Information Service for the New Independent States (Department of Commerce)
BOD	-	Biological Oxygen Demand
BRA	-	Bank Rehabilitation Agency
BSC	-	Business Services Center
CAAM	-	Presidential Environmental Advisory Commission (Ecuador)
CABEI	-	Central American Bank for Economic Integration
CAEA	-	Climate and Atmospheric Environment Activities Trust Fund (World Meteorological Organization)
CAFS	-	Center for African Family Studies
CAP	-	Central American Programs
CAPEL	-	Center for Electoral Assistance and Promotion
CAR	-	Central African Republic
CARE	-	Cooperative for American Relief Everywhere
CASS	-	Cooperative Agreement with States for Scholarships
CBA	-	Cooperative Business Association
CCAD	-	Central America Commission on Environment and Development
CDB	-	Caribbean Development Bank
CEE	-	Central and Eastern Europe
CEPRA	-	Center for Economic Policy, Research and Analysis (Armenia)
CERPOD	-	Center for Research on Population and Demography
CFA	-	African Financial Community (Communauté Financière Africaine)
CFC	-	Chloro-fluorocarbon
CG	-	Consultative Group
CIAV	-	Commission of Support and Verification (Nicaragua)
CIDA	-	Canadian International Development Agency
CIECC	-	Special Multilateral Fund (Organization of American States)

CIES	-	Special Development Assistance Fund (Organization of American States)
CILSS	-	Permanent Interstate Committee for Drought Control in the Sahel
CIP	-	Commodity Import Program
CITES	-	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CLASP	-	Caribbean and Latin American Scholarship Program
CLD	-	Latin American Development Cooperation
CLICOM	-	Climate Computer Project (World Meteorological Organization)
CLUSA	-	Cooperative League of the USA
CO2	-	Carbon Dioxide
COMESA	-	Common Market for East and Southern Africa
CONCAUSA	-	Central America-USA Alliance
CPR	-	Cardio-Pulmonary Resuscitation
CPR	-	Contraceptive Prevalence Rate
CRS	-	Catholic Relief Services
CSCE	-	Conference on Security and Cooperation in Europe
CSD	-	Commission on Sustainable Development (United Nations)
CSFR	-	Czech and Slovak Federal Republic
CSO	-	Civil Society Organization
CYP	-	Couple Years of Protection
DA	-	Development Assistance
DAC	-	Development Assistance Committee (Organization for Economic Cooperation and Development)
DAF	-	Development Assistance Fund
DART	-	Disaster Assistance Response Team
DFA	-	Development Fund for Africa
DHS	-	Demographic and Health Survey
DOC	-	Department of Commerce
EAI	-	Enterprise for the Americas Initiative
EBRD	-	European Bank for Reconstruction and Development
EC	-	European Community
ECOWAS	-	West African Economic Community
ECP	-	Enhanced Credit Program
EEC	-	European Economic Community
EFJ	-	Environmental Foundation of Jamaica
EIA	-	Environmental Initiative for the Americas
ELI	-	Environmental Law Institute
ENI	-	Europe and New Independent States
EPA	-	Environmental Protection Agency
EPTA	-	Expanded Program of Technical Assistance (United Nations)
ERP	-	Economic Reform Program
ESAF	-	Enhanced Structural Adjustment Facility
ESF	-	Economic Support Fund
EU	-	European Union
EXIM	-	Export-Import Bank
FAA	-	Federal Aviation Administration
FAO	-	Food and Agriculture Organization (United Nations)
FCC	-	Federal Communications Commission
FCCC	-	Framework Convention on Climate Change (United Nations)
FEMICA	-	Federation of Central American Municipalities
FEWS	-	Famine Early Warning System

FFA	-	Forum Fisheries Agency (South Pacific)
FHIS	-	Honduran Fund for Social Investment
FISE	-	Emergency Social Investment Fund
FMLN	-	Farabundo Marti National Liberation Front (El Salvador)
FNDH	-	Foreign National Direct Hire
FP	-	Family Planning
FREEDOM	-	Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act
FSRDF	-	Foreign Service Retirement and Disability Fund
FSU	-	Former Soviet Union
FSVC	-	Financial Services Volunteer Corps
FTAA	-	Free Trade Area of the Americas
FTB	-	Federal Triangle Building
FTE	-	Full-Time Equivalent
FYROM	-	Former Yugoslav Republic of Macedonia
G-7	-	Group of Seven (leading industrial nations consisting of Britain, Canada, France, Germany, Italy, Japan and the United States)
GATT	-	General Agreement on Tariffs and Trade
GCA	-	Global Coalition for Africa
GCC	-	Global Climate Change
GCRP	-	Global Change Research Program
GDP	-	Gross Domestic Product
GEF	-	Global Environmental Facility
GHAI	-	Greater Horn of Africa Initiative
GIPME	-	Global Investigation of Pollution in the Marine Environment
GLOSS	-	Global Sea Level Observing System
GNP	-	Gross National Product
GOA	-	Government of Angola or Armenia
GOB	-	Government of Belarus, Belize, Benin, Bolivia or Brazil
GOC	-	Government of Colombia
GOCI	-	Government of the Cote d'Ivoire
GOCR	-	Government of Costa Rica or Czeck Republic
GODR	-	Government of the Dominican Republic
GOE	-	Government of Ecuador, Egypt, Eritrea or Estonia
GOES	-	Government of El Salvador
GOG	-	Government of Georgia, Ghana, Guatemala, Guinea or Guyana
GOGB	-	Government of Guinea-Bissau
GOH	-	Government of Haiti, Honduras or Hungary
GOI	-	Government of India, Indonesia or Israel
GOJ	-	Government of Jamaica or Jordan
GOK	-	Government of Kazakhstan or Kenya
GOL	-	Government of Lebanon or Lithuania
GOM	-	Government of Malawi, Mexico, Mongolia or Morocco
GON	-	Government of Nepal, Nicaragua or Niger
GOOS	-	Global Ocean Observing System
GOP	-	Government of Panama, Paraguay, Peru, Philippines or Poland
GOR	-	Government of Romania
GOS	-	Government of Senegal or Slovakia
GOT	-	Government of Tanzania, Turkey or Turkmenistan
GOTG	-	Government of The Gambia
GOU	-	Government of Uganda or Ukraine
GNU	-	Government of National Unity, South Africa
GPA	-	Global Program on AIDS (World Health Organization)

GRC	-	Government of the Republic of Cameroon
GRM	-	Government of the Republic of Madagascar, Mali or Mozambique
GRN	-	Government of the Republic of Namibia
GRZ	-	Government of the Republic of Zambia or Zimbabwe
GSA	-	General Services Administration
GSL	-	Government of Sri Lanka
GSS	-	Global Strategy for Shelter to the Year 2000
GSP	-	General Systems of Preferences
GTZ	-	Guatemala Trade Zone
HA	-	Hectare
HABITAT	-	United Nations Center for Human Settlements
HBCU	-	Historically Black Colleges and Universities
HBI	-	Home Builders Institute
HDI	-	Human Development Index
HFC	-	Housing Finance Company
HFI	-	Human Freedom Index
HG	-	Housing Guaranty
HIV	-	Human Immunodeficiency Virus
HMO	-	Health Maintenance Organization
HRDA	-	Human Resource Development for Africa
HYV	-	High-Yield Variety
IBRD	-	International Bank for Reconstruction and Development (World Bank)
ICAO	-	International Civil Aviation Organization
ICITAP	-	International Criminal Investigative and Training Assistance Program (U.S. Department of Justice)
ICORC	-	International Committee on the Reconstruction of Cambodia
ICRC	-	International Committee for the Red Cross
ICSECA	-	International Contributions for Scientific, Educational and Cultural Activities
ICSOC	-	International Conventions and Scientific Organizations Contributions (now ICSECA)
ICSU	-	International Council of Scientific Unions
IDB	-	Inter-American Development Bank
IDNDR	-	International Decade for Natural Disaster Reduction
IEC	-	Information, Education and Communication
IESC	-	International Executive Service Corps
IFC	-	International Finance Corporation
IFES	-	International Foundation for Electoral Systems
IFI	-	International Financial Institution
IFI	-	International Fund for Ireland
IGADD	-	Intergovernmental Authority on Drought and Development
IG	-	Inspector General
IGCP	-	International Geological Correlation Program
IGOSS	-	Integrated Global Ocean Services System
IHP	-	International Hydrological Program
IICA	-	Inter-American Institute of Agricultural Sciences
IIDH	-	Inter-American Institute for Human Rights
ILO	-	International Labor Organization
IMAZON	-	Institute for Man and the Amazonian Environment
IMF	-	International Monetary Fund
IMR	-	Infant Mortality Rate
INC	-	Intergovernmental Negotiating Committee
INCAE	-	Central American Institute of Business Administration

INSAH	-	Sahel Research Institute
IO&P	-	International Organizations and Programs (State Department)
IOC	-	Intergovernmental Oceanographic Commission
IPAM	-	Amazon Institute for Environmental Research
IPCC	-	Intergovernmental Panel on Climate Change
IPDC	-	Intergovernmental Program for the Development of Communication
IPF	-	Indicative Planning Figure
IPPF	-	International Planned Parenthood Federation
IPS	-	Investment Promotion Service (UNIDO)
IRA	-	Irish Republican Army
IRC	-	International Rescue Committee
IRI	-	International Republican Institute
IRIS	-	Institute for Reform of the Informal Sector
IRM	-	Information Resources Management
ISA	-	Initiative for Southern Africa
ISP	-	Information Systems Plan
ITSU	-	International Coordination Group for the Tsunami Warning System
ITTA	-	International Tropical Timber Agreement
ITTO	-	International Tropical Timber Organization
IUCN	-	International Union for Conservation of Nature
IUD	-	Intra-Uterine Device
JAFPP	-	Jordanian Association for Family Planning and Protection
JICA	-	Japanese International Cooperation Agency
JRMP	-	Joint Regional Marketing Program
LAC	-	Latin America and the Caribbean
LDC	-	Less, or Least, Developed Country
LG	-	Local Government
LPG	-	Loan Portfolio Guaranty
LRMC	-	Long-Run Marginal Cost
MAB	-	Man and Biosphere Program
MCH	-	Maternal and Child Health
MEP	-	Middle East Peace
MERC	-	Middle East Regional Cooperation Program
MIS	-	Management Information System
MMR	-	Maternal Mortality Rate
MNF	-	Multi-National Force
MOH	-	Ministry of Health
MSED	-	Micro and Small Enterprise Development
MSO	-	Mission Strategic Objective
MT	-	Metric Ton
MWI	-	Ministry of Water and Irrigation (Jordan)
NAFTA	-	North American Free Trade Agreement
NAR	-	Nutritional Association of Realtors
NARS	-	National Agricultural Research Institution
NAS	-	National Academy of Sciences
NATO	-	North Atlantic Treaty Organization
NDI	-	National Democratic Institute
NED	-	National Endowment for Democracy
NEPRP	-	African Economic Policy Reform Program
NGO	-	Nongovernmental Organization



NHB	-	National Housing Bank
NHP	-	Natural Hazards Program
NIC	-	Newly Industrialized Country
NIS	-	New Independent States of the Former Soviet Union
NMFS	-	National Marine Fisheries Services
NOx	-	Nitrous Oxide
NPR	-	National Performance Review
NRCA	-	Natural Resources Conservation Authority (Jamaica)
NRM	-	Natural Resource Management
NSD	-	National Security Directive
NSN	-	Northern Sciences Network
NTAE	-	Non-Traditional Agricultural Export
NTPD	-	Non-Timber Forest Product
OAS	-	Organization of American States
OCP	-	Onchocerciasis Control Program
ODA	-	Official Development Assistance
ODA	-	Overseas Development Agency (United Kingdom)
OE	-	Operating Expense
OECD	-	Organization for Economic Cooperation and Development
OECP	-	Overseas Economic Cooperation Fund (Japan)
OECS	-	Organization of Eastern Caribbean States
OFDA	-	Office of U.S. Foreign Disaster Assistance (USAID)
OHOR	-	Office of Human Rights Ombudsman (Government of Guatemala)
OIG	-	Office of the Inspector General (USAID)
OMB	-	Office of Management and Budget
OPIC	-	Overseas Private Investment Corporation
OR	-	Operations Research
ORS	-	Oral Rehydration Salts
ORT	-	Oral Rehydration Therapy
OSCE	-	Organization for Security and Cooperation in Europe
OTC	-	Over the Counter
PAHO	-	Pan American Health Organization
PARTS	-	Policy Analysis, Research and Technical Support
PCA	-	Panama Canal Authority
PHC	-	Primary Health Care
PLO	-	Palestine Liberation Organization
PMP	-	Prevention, Mitigation and Preparedness
PRISM	-	Program Performance Information for Strategic Management
PSC	-	Personal Services Contract
PTA	-	Parent-Teacher Association
PVO	-	Private and Voluntary Organization
RAPID	-	Resources for the Awareness of Population Impact on Development
RCG	-	Royal Cambodian Government
RDP	-	Reconstruction and Development Program
REDSO/ESA	-	Regional Economic Development Services Office for Eastern and Southern Africa
REDSO/WCA	-	Regional Economic Development Services Office for Western and Central Africa
RENAMO	-	Mozambican National Resistance
RHUDO	-	Regional Housing and Urban Development Office (USAID)
RMA	-	Range Management Area
ROY	-	Republic of Yemen
RSA	-	Republic of South Africa

RSM/EA	-	Regional Support Mission for East Asia
SAEDF	-	Southern African Enterprise Development Fund
SADC	-	Southern Africa Development Community (formerly Southern Africa Development Coordination Conference)
SARP	-	Southern Africa Regional Program
SATCC	-	Southern African Transport and Communications Commission
SBA	-	Small Business Administration
SDA	-	Sustainable Development Assistance
SEED	-	Support for East European Democracy Act
SICE	-	Inter-American System of Trade Information
SIFAD	-	Strengthening Institutions for Food Aid Development Task Force (Bangladesh)
SME	-	Small and Micro Enterprise
SOE	-	State-Owned Enterprise
SO	-	Strategic Objective
SOx	-	Sulfur Oxide
SPA	-	Special Program of Assistance for Africa
SPAN	-	Specially Protected Areas and Wildlife
SPREP	-	South Pacific Regional Environmental Program
STD	-	Sexually Transmitted Disease
TAF	-	The Asia Foundation
TDA	-	Trade and Development Agency
TFR	-	Total Fertility Rate
TGE	-	Transitional Government of Ethiopia
TOGA	-	Tropical Ocean and Global Atmosphere Study
UECP	-	Urban Environment Credit Program
UK	-	United Kingdom
UN	-	United Nations
UNCDF	-	United Nations Capital Development Fund
UNCED	-	United Nations Conference on the Environment and Development
UNCHS	-	United Nations Commission for Human Settlements
UNCTAD	-	United Nations Conference on Trade and Development
UNDHA	-	United Nations Department of Humanitarian Affairs
UNDP	-	United Nations Development Program
UNEP	-	United Nations Environment Program
UNESCO	-	United Nations Educational, Scientific and Cultural Organization
UNFP	-	United Nations Fellowship Program
UNFPA	-	United Nations Population Fund
UNGA	-	United Nations General Assembly
UNHCR	-	United Nations High Commission for Refugees
UNICEF	-	United Nations Children's Fund
UNIDO	-	United Nations Industrial Development Organization
UNIFEM	-	United Nations Development Fund for Women
UNMIH	-	United Nations Mission in Haiti
UNOCHA	-	United Nations Office of Coordination for Humanitarian and Economic Aid to Afghanistan
UNRWA	-	United Nations Relief Works Agency
UNSRSG	-	United Nations Special Representative of the Secretary General
UNTAC	-	United Nations Transitional Authority in Cambodia
URNG	-	Guatemalan National Revolutionary Unity
US-AEP	-	United States-Asian Environmental Partnership
USAID	-	United States Agency for International Development

USDA	-	United States Department of Agriculture
USDH	-	United States Direct Hire
USIA	-	United States Information Agency
VCF	-	Venture Capital Fund
VCP	-	Voluntary Cooperation Program (World Meteorological Organization)
VOCA	-	Volunteers in Overseas Cooperative Assistance
WAJ	-	Water Authority of Jordan
WCA	-	West and Central Africa
WCP	-	World Climate Program (World Meteorological Organization)
WED	-	Women, Environment and Development Program (United Nations Development Fund for Women)
WFP	-	World Food Program (United Nations)
WHF	-	World Heritage Fund
WHO	-	World Health Organization
WMO	-	World Meteorological Organization
WOCE	-	World Ocean Circulation Experiment
WTO	-	World Trade Organization
WWF	-	World Wildlife Fund
WWW	-	World Weather Watch (World Meteorological Organization)