

U.S. Government Assistance to and Cooperative Activities with the
New Independent States
of the Former Soviet Union

FY 1996 Annual Report

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of U.S. Assistance to the NIS

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FOREWORD

This Annual Report describes the U.S. Government activities that supported reform in the twelve New Independent States (NIS) of the former Soviet Union during Fiscal Year 1996. This was a year of progress in terms of both political and economic reform. With only a few notable exceptions, the overall trend on both fronts was encouraging.

This report summarizes our contributions to economic and political reform in each of the twelve NIS on a country-by-country basis, as well as by program. The progress these countries are making reflects their commitment to reform, and we are pleased to be helping in this historic endeavor.

Ambassador Richard Morningstar
Special Advisor to the President
and Secretary of State on
Assistance to the NIS

TABLE OF CONTENTS

I. INTRODUCTION

Basic Goals	1
Progress Made in FY 1996	1
Financial Summary	3
Plans for FY 1997 and Beyond	3
Structure of the FY 1996 Annual Report	4

II. COUNTRY ASSESSMENTS

Armenia	5
Azerbaijan	10
Belarus	12
Georgia	14
Kazakstan	17
Kyrgyzstan	21
Moldova	25
Russia	29
Tajikistan	43
Turkmenistan	46
Ukraine	49
Uzbekistan	56

III. PROGRAM ASSESSMENTS

TRADE AND INVESTMENT PROGRAMS	62
U.S. Export-Import Bank (Eximbank)	62
Overseas Private Investment Corporation (OPIC)	62
U.S. Trade and Development Agency (TDA)	63
Enterprise Funds	63
U.S. Department of Commerce - Business Development Committees (BDCs)	68
USAID Support for Accession to the World Trade Organization (WTO)	69
BUSINESS AND ECONOMIC DEVELOPMENT PROGRAMS	69
U.S. Department of Commerce - Business Information Services (BISNIS, BISTA)	69
U.S. Department of Commerce - American Business Centers (ABCs)	72
U.S. Department of Commerce - Consortia of American Businesses in the NIS (CABNIS)	73
U.S. Department of Commerce - Commercial Law Development Program (CLDP)	76
USAID New Business, Small Business and Micro-Business Development Programs	76
USAID Private-Sector Initiatives/Financial and Economic Restructuring Programs	76
U.S. Securities and Exchange Commission (SEC)	79
U.S. Department of the Treasury - Technical Assistance	81
U.S. Department of Agriculture - Emerging Markets Program	81
USAID Farmer-to-Farmer Program	82
USAID Food Systems Restructuring Programs	83
TRAINING AND EXCHANGE PROGRAMS	84
USIA FREEDOM Support Act Exchanges	84
USIA Base Budget Exchanges	91
USAID NIS Exchanges and Training (NET) Project	92
U.S. Department of Commerce - SABIT Program	94
U.S. Department of Agriculture - Cochran Fellowship Program	97
U.S. Department of Agriculture - Faculty Exchange Program	98
DEMOCRACY PROGRAMS	99
USAID Democratic Pluralism Initiatives	99
Congressional Research Service (CRS)	101
Anti-Crime Training and Technical Assistance (ACTTA) Program	101

ENERGY AND ENVIRONMENTAL PROGRAMS	103
U.S. Department of Energy - Nuclear Safety Programs	103
U.S. Nuclear Regulatory Commission (NRC) - Nuclear Safety Regulation Program	104
USAID Energy Sector Programs	104
USAID Environmental Programs	105

SECURITY PROGRAMS	108
U.S. Department of Defense - Cooperative Threat Reduction (CTR) Program	109
U.S. Department of Defense - Environmental Security Program	119
U.S. Department of Defense/FBI Counterproliferation Program	119
U.S. Department of State - Science Centers Program	120
Nonproliferation and Disarmament Fund (NDF) - Export Control Assistance	124
U.S. Departments of Defense and State - Warsaw Initiative / Partnership for Peace	125
U.S. Department of Energy - Materials Protection, Control and Accounting (MPC&A)	126
Joint U.S.-Russian Reduced Enrichment for Research and Test Reactors (RERTR)	128
Safeguards, Transparency and Irreversibility (STI)	128
U.S. Department of Energy - Export Controls	128
U.S. Department of Energy - Initiatives for Proliferation Prevention (IPP) Program	129
U.S. Nuclear Regulatory Commission (NRC) - Materials Protection, Control and Accounting	130

SOCIAL-SECTOR AND HUMANITARIAN PROGRAMS	132
USAID Health Programs	132
USAID Housing-Sector Reform Programs	133
U.S. Department of Agriculture - Food Assistance Programs	135
USAID Humanitarian Assistance Programs	135
Coordinator's Office Humanitarian Assistance Programs	136

OTHER PROGRAMS	150
Eurasia Foundation	150
Peace Corps	151
U.S. Support for International Financial Institutions	152
Program for Research and Training on Eastern Europe and the NIS (Title VIII)	154

IV. ASSESSMENTS OF PROGRESS IN MEETING THE STANDARDS OF SECTION 498A OF THE FOREIGN ASSISTANCE ACT OF 1961

Armenia	157
Azerbaijan	162
Belarus	166
Georgia	171
Kazakstan	176
Kyrgyzstan	181
Moldova	185
Russia	189
Tajikistan	205
Turkmenistan	211
Ukraine	215
Uzbekistan	221

V. EVALUATION OF THE USE OF “NOTWITHSTANDING” AUTHORITY

APPENDIX: CUMULATIVE BUDGET CHARTS

Funds Budgeted
Obligations
Expenditures
Commercial Financing And Insurance
Graph: Cumulative Obligations and Expenditures

I. INTRODUCTION

Since 1992, the United States Government has been providing assistance to the twelve New Independent States of the former Soviet Union in order to facilitate their transitions to market-based democracies. This assistance has reinforced the overall U.S. policy toward this crucially important part of the world: to foster security, stability and prosperity; to develop constructive relationships with the region; and to prevent the emergence of another significant threat to U.S. national security. The security of the United States and the rest of the world is immeasurably enhanced if Russia and the other NIS are stable, market-oriented democracies. The U.S. Government has devoted significant resources to this effort over the past four years—over \$8.5 billion in grants and over \$12.9 billion in financing. This report describes the progress of this effort in Fiscal Year 1996.

BASIC GOALS

In FY 1996, U.S. Government assistance programs and cooperative activities conducted in the NIS supported three basic goals:

- 1) to promote democratic institution-building, the rule of law and the establishment of a civil society;
- 2) to help establish open and competitive market economies and expand opportunities for trade and investment; and
- 3) to enhance U.S., NIS and international security through cooperative threat reduction and nonproliferation efforts.

Our programs and activities made substantial progress towards these three goals in FY 1996.

PROGRESS MADE IN FY 1996

Democratic Reform

The trend toward democracy continued to gain momentum in the NIS countries in FY 1996, although not without setbacks, most notably in Belarus, which saw a serious deterioration in its human-rights and political reform climate under an increasingly authoritarian president. Democratic gains were also challenged in Armenia, where flaws in the presidential and municipal election processes provoked local demonstrations and calls from the international community for the Government of Armenia to deepen its commitment to democratic processes. The steady expansion of democratic values in countries as diverse as Russia, Kyrgyzstan, Moldova and Georgia was juxtaposed with the continuation of more authoritarian regimes, for example in some of the Central Asian states, and also resistance to reform—even in the region's more established electoral democracies—on the part of those who for reasons of ideology or greed sought to reverse democratic reforms or to exploit them for illegal gain.

In FY 1996, U.S. Government assistance to the NIS in the area of democratic reform continued to focus on achieving long-term results through democratic institution-building, with particular attention to institutions providing checks against centralized power: independent legislatures and judiciaries, independent media, transparent and responsible local governments, and extensive networks of nongovernmental organizations (NGOs) providing a channel for public involvement in the reform process. Limited technical assistance was focused on high-priority issues such as legal reform, law enforcement, independent media, and NGO training and development. Greater emphasis was given to expanding linkages through low-cost, high-impact activities such as community-based exchanges and training, and the promotion of partnerships and other institutional relationships designed to be increasingly self-sufficient and ultimately self-sustaining.

In recognition of the continuing need to bolster small-scale reform efforts, especially at the local and regional levels, the embassy-based Democracy Funds Small-Grants Program, which was introduced in FY 1995, was expanded to include a major new small-grants program in Russia, administered by the Eurasia

Foundation. As part of the increased effort devoted to community-based initiatives, the new Community Connections program (based on USIA's highly successful "Business for Russia" program) began building linkages between reform-minded Russian, Ukrainian and Moldovan public and private sector leaders and their U.S. counterparts.

Economic Reform

In FY 1996, most of the NIS countries continued the hard work of economic reform, with several of them making good progress toward macro-economic stabilization. Russia, in particular, made significant progress towards reducing inflation, stabilizing the ruble and decreasing its budget deficit. Meanwhile, with U.S. assistance, Russia, Moldova and Kyrgyzstan have now essentially completed mass privatization programs. However, most NIS countries, including Russia, have yet to adopt the full range of legal and regulatory reforms necessary to establish fully functioning market economies and to translate macro-economic stabilization into economic growth.

Accordingly, U.S. Government assistance to the NIS in FY 1996 focused on the structural transformation of the NIS economies, as well as the development of the corresponding market-based legal and institutional frameworks. In Ukraine, for example, the U.S. continued its support for privatization, helping the Ukrainians accelerate the implementation of this crucial program. In other NIS countries, U.S. assistance shifted to post-privatization activities, such as the development of the appropriate tax codes, stock exchanges, share registries and regulatory bodies, which will in turn expand trade and investment opportunities for U.S. businesses. At the same time, the U.S. continued to support critical trade and investment programs, including the regional enterprise funds, as well as the activities of the U.S. Export-Import Bank (Eximbank), the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (TDA).

Cooperative Threat Reduction and Nonproliferation

In FY 1996, U.S. Government security-related assistance to and cooperation with the NIS continued to play a critical role in the historic transformations occurring in these countries. Assistance initiated in FY 1992 under the U.S. Defense Department's Cooperative Threat Reduction (CTR or Nunn-Lugar) Program has evolved into a broad array of activities funded and implemented through a number of U.S. Government agencies. These programs form a comprehensive, multi-layered approach to reducing the threat posed by the arsenal of former Soviet weapons of mass destruction; enhancing nonproliferation and counter-proliferation efforts, and promoting regional stability.

Security program highlights in FY 1996 included the denuclearization of Ukraine and Belarus with assistance from the CTR Program. While Kazakhstan had become a nuclear-weapons-free state in spring 1995, Ukraine became a nuclear-weapons-free state in June 1996, and the last SS-25 nuclear rocket was removed from Belarus in November 1996. In Russia, assistance under the CTR Program continued to support strategic offensive arms elimination (SOAE), the design and construction of a secure fissile-material storage facility and the destruction of chemical weapons.

Also in FY 1996, the Department of Defense and the Federal Bureau of Investigation (FBI) initiated a joint counter-proliferation program for the NIS, Baltic and Eastern European countries, and the Civilian Research and Development Foundation's (CRDF) initial grant program got under way. Under the State Department's Science Center programs, an additional 2,500 former Soviet weapons scientists and engineers were provided peaceful civilian research opportunities, raising the total number of former Soviet weapons personnel involved in Science Center projects to over 15,000. Under its Material Protection, Control and Accounting (MPC&A) Program, the U.S. Department of Energy (DOE) initiated or continued security upgrades at over 40 facilities, institutes and enterprises in the NIS, completing upgrades at three NIS sites. In FY 1996, Warsaw Initiative and Partnership for Peace activities in the NIS were limited to support from the Department of Defense, as there was no Presidential Determination of eligibility for this kind of assistance under Foreign Military Financing (FMF). The Defense Department's program supported several NIS training and exchange activities.

FINANCIAL SUMMARY

Funding for U.S. Government assistance to the NIS continued its downward trend in FY 1996. From the FY 1994 peak of \$2.5 billion, FREEDOM Support Act assistance funds dropped to \$850 million in FY 1995, \$641 million in FY 1996 and \$625 million in FY 1997.

As of the end of FY 1996, cumulative appropriations for the FREEDOM Support Act, Cooperative Threat Reduction and the other major assistance and cooperative programs totaled \$9.34 billion, of which \$8.51 billion had been obligated and \$6.80 billion had been expended by the end of FY 1996 (see Appendix). FREEDOM Support Act obligations increased by approximately \$646 million in FY 1996, while FREEDOM Support Act expenditures increased by approximately \$1.05 billion.

PLANS FOR FY 1997 AND BEYOND

As this Annual Report will describe, the twelve countries of the NIS continue to make progress toward market democracies—some more quickly and smoothly than others. While much remains to be done, few could have imagined the radical reorientation that has occurred in these countries over the past five years.

We must bear in mind that during the Soviet era there was no private ownership, no market institutions, no legal foundation for a market economy, no tradition of democracy, not even basic institutions for citizen participation in the policy process. Moreover, as Soviet republics, these states had only limited experience in making their own decisions, and little or no direct experience in international affairs.

For most of the NIS, as well as for U.S. foreign policy and technical assistance to the NIS, the post-Soviet transition period has been an extraordinary success:

- **Private Ownership:** The private sector's share of GDP is now over 60 percent in Russia, 50-60 percent in Moldova, about 50 percent in Ukraine, 40 percent in Kyrgyzstan and 35 percent in Kazakhstan. Privatization and economic reform are particularly important, since this combination offers the best prospects for achieving economic prosperity—a cornerstone for building a stable democracy.
- **Elections:** Reasonably democratic elections have had a positive impact on the political processes in Georgia, Russia, Kyrgyzstan, Moldova and Ukraine—Russia itself has held parliamentary, presidential and gubernatorial elections since December 1995. In those NIS countries whose long-term commitment to free and fair elections appears more tenuous, significant progress has been made in developing and implementing more democratic election laws, as well as in training electoral monitors to watch for irregularities. Where elections have been tainted, political leadership has had to accept the consequences of international scrutiny and condemnation.
- **Civil Society:** Nongovernmental organizations (NGOs) were virtually non-existent in the NIS in 1992; however, since then, there has been steady and impressive growth in the NGO sector, especially with respect to civic associations and other independent organizations, including think tanks, citizen action groups and other public-interest and advocacy groups.

In short, at least two-thirds of the population of the former Soviet Union now live in countries where politicians are accountable to the people who elected them, courts mediate civil affairs, markets determine prices, and market-based institutions such as stock exchanges and small privately owned businesses are functioning as underpinnings of economic life.

We can consider the first phase of our engagement in the NIS to be successful and complete when the basic structural and institutional transitions from the Soviet system to market democracy have taken place. Russia is making good progress, and Ukraine, Moldova, Georgia and Kyrgyzstan are next in line. Meanwhile, other NIS countries are reforming at a slower pace.

The next phase of our engagement in the NIS should be focused on sustaining these transitions. Economic stabilization and structural change do not automatically translate into investment and growth, nor do nascent political systems immediately develop into full participatory democracies.

As the political and economic transitions proceed in the NIS, U.S. engagement with them must change. We must move from guiding and advising on the mechanisms of structural change to maintaining connections to these countries in ways that sustain these transitions. Our engagement must evolve towards more normal, mutually beneficial bilateral relations. Our goal is to help Russians and the other NIS peoples to consolidate their own market economies and democratic governments—the mechanisms for this second phase are partnerships, exchanges, joint ventures and cooperative projects. We must build on existing programs that fit into this category, even as we initiate new cooperative programs.

The underlying strategy for investing our resources is leveraging. Investments are not an end in themselves, in the sense that the creation of a privatization system or a nongovernmental organization was during the first phase of our assistance; rather, investments in this second phase should remove bottlenecks, forge ties and facilitate relationships that enable new private, governmental and community resources—human and financial—to be put to use.

The second phase of our assistance program will begin to be implemented in FY 1997 and will be the core of our FY 1998 budget request to Congress.

STRUCTURE OF THE FY 1996 ANNUAL REPORT

Section II of this report contains assessments of U.S. Government assistance programs by country, each of which begins with a brief overview of the political and economic developments in each country in FY 1996. Section III describes each major category of our assistance programs, trade and investment programs, and cooperative activities. Section IV presents our evaluation of the performance of each of the NIS countries according to the criteria in Section 498A of the Foreign Assistance Act of 1961. Section V describes the use of the "notwithstanding" authority provided to enable U.S. Government assistance programs to move forward without delay. Finally, the appendix provides the cumulative summary charts of assistance funds budgeted, obligated and expended as of the end of FY 1996, as well as a summary of U.S. Government commercial financing and insurance.

We will continue to publish quarterly financial updates to this report, as well as a semi-annual descriptive update on activities that have taken place during the October-March period. Like our other annual reports, this report will be available on the Internet on the State Department's World Wide Web homepage at www.state.gov/www/regions/nis/nisecon.html

This report was produced by the Office of the Coordinator of U.S. Assistance to the NIS, and was assembled and edited by Ivars Kuskevics, with assistance from Kim Savit. The financial charts in the appendix were prepared by Dean Fischer. Please direct comments and questions to Ivars Kuskevics at (202) 647-0832 or by e-mail to the following address: ikuskevics@usaid.gov

II. COUNTRY ASSESSMENTS

The following country assessments provide an overview of U.S. Government assistance programs and their effectiveness in each of the twelve New Independent States in FY 1996, with an emphasis on the second half of the fiscal year. These assessments, which also contain brief overviews of political and economic developments in each of the twelve countries, are based on information provided by our embassies and by the U.S.-based representatives of the various governmental and non-governmental agencies providing assistance to the NIS. Additional information on specific developments in our assistance programs during the first half of FY 1996 appears in the October 1995-March 1996 Report.

ARMENIA

In FY 1996, the U.S. Government provided an estimated \$150 million in assistance to Armenia, including \$35.6 million in donated humanitarian goods transported by the U.S. Government. Of this amount, humanitarian assistance (including USAID funding for wheat and natural gas) represented \$111 million—or 74 percent—and technical assistance (including supporting commodities and equipment, mainly to the energy sector) \$40 million—or 26 percent. The other main emphases of U.S. Government technical assistance to Armenia in FY 1996 were economic restructuring and democracy-building.

Political Overview: In controversial presidential elections in September, Armenia's incumbent president Levon Ter-Petrossian won 51.75 percent of the vote, defeating the opposition coalition's candidate Vazgen Manukyan, who received 41.29 percent of the vote, according to the official vote count. Alleging electoral fraud and falsification, the opposition organized rallies and demonstrations, which culminated in violence. Members of the opposition were arrested, troops were brought into the capital city Yerevan and a state of emergency was declared, preventing further demonstrations. The Organization for Security and Cooperation in Europe (OSCE), which led a team of international observers, the USAID-funded International Foundation for Election Systems (IFES), the U.S. Government and others issued statements criticizing the numerous irregularities in the elections and calling on the Government of Armenia to work to reform the country's electoral law and procedures in order to improve the election process.

Economic Overview: In FY 1996, economic reforms continued on a generally positive course in Armenia, strongly encouraged and supported by substantial foreign aid, as well as by guidance and financing from international financial institutions (IFIs). Inflation remained low, partly due to the seasonal increase of agricultural goods supplies. Armenia's trade deficit continued to grow, reaching 25.7 percent of GDP. Due to organizational reshuffling, the privatization process proceeded slowly this past year—23 percent of medium-sized and large enterprises and 60 percent of small enterprises have been privatized thus far. Poor management, lack of capital, and under-utilized capacity continued to plague those enterprises which have been privatized. Ten of the country's largest enterprises, including Mars Electronics, Armentel Telecommunications and the Nairit Chemical Plant, were identified for cash-only privatization in FY 1996; however, none was able to find a buyer. Significant growth in the private sector was observed in the areas of wholesale, retail trade and the restaurant business, especially in Yerevan. As of the end of FY 1996, sixty percent of Armenia's GDP originated from the private sector.

Humanitarian Assistance

Wheat Assistance: USAID allocated \$20 million in FY 1996 funding for the purchase of wheat for Armenia. This wheat was purchased and transported to Armenia in two tranches. The first tranche of 48,000 metric tons was delivered to Armenia in early June at a cost of \$15.7 million, and the second tranche of 16,500 metric tons was purchased in early September 1996 for delivery to Armenia by mid-October, at a cost of \$4.3 million. Under a memorandum of agreement between USAID and the Government of Armenia, this wheat will be monetized and the proceeds will be used to purchase additional wheat and/or natural gas.

Seed Assistance: In FY 1996, the Coordinator's Office cooperated with the Ministry of Agriculture in transporting seed purchased by the Government of Armenia. Two programs were completed: the first in April 1996, under which 2,500 metric tons of barley seed was transported to Armenia for the spring planting; and the second in August 1996, under which 2,000 metric tons of wheat seed was transported

for the fall planting. Under these programs, the Government of Armenia paid for the seed, while the Coordinator's Office funded the \$296,000 cost of transporting the seed.

Medical Assistance: The Coordinator's Office also funded the shipment of Defense Department excess hospital equipment and supplies to Armenia under a three-phase project which began in FY 1996, and was completed in late October 1996. Phase I consisted of a site survey and technical assessment conducted in June, as a result of which eight hospitals and medical centers in Yerevan were selected to receive assistance. Phase II consisted of the inventory, packing and shipment of the equipment and supplies from Germany to Armenia. Phase III, which began in late August and was completed in October, involved 30 physicians, technicians and logisticians in Yerevan coordinating the arrival of 240 containers of equipment and supplies, distributing them to the eight recipient institutions, installing the equipment and providing technical assistance. The total value of the donated supplies and equipment was approximately \$15 million.

Armenia Crisis Response Program: In FY 1996, USAID funding provided kerosene for heating purposes to 213,000 families and 1,400 schools in Armenia. In addition, USAID funding purchased 64,000 metric tons of wheat to supplement other wheat imports for Armenia. Proceeds from sale of the wheat to mills and bakeries will be used by the Government of Armenia to procure additional wheat supplies.

Winter 1996-97 Kerosene Project/PAROS Beneficiary Registration Program: USAID awarded a contract to procure and ship to Armenia 19,249 metric tons of kerosene, valued at approximately \$6.8 million, under its 1996-97 Winter Warmth Program. This program will provide kerosene to vulnerable families living in temporary shelters in earthquake-damaged regions and cities; to schools throughout Armenia; to elderly, single pensioners; and to the most vulnerable households of the general population, as determined by PAROS, a national database of socially vulnerable people which was developed with USAID support and which is used by the Armenian Government to target humanitarian assistance. In FY 1996, USAID provided \$300,000 to support the Beacon/PAROS beneficiary registration program.

USAID Natural Gas Assistance: During the July-September period, USAID provided 201 million cubic meters of natural gas worth \$15 million to Armenia. This program will help improve the fiscal condition of Armenia's energy sector and to establish a new legal basis for the operation of energy companies. Proceeds generated from the monetization of the gas will be used to support the privatization of Armenia's energy sector and to purchase additional gas. This was the first time that the U.S. Government had provided natural gas to Armenia as an assistance commodity.

Greenhouse Project: A twelve-month subgrant was awarded to the Adventist Development and Relief Agency (ADRA) to provide greenhouses, gardening equipment, materials and training to 2,000 refugee households and other vulnerable households in selected areas of Armenia.

U.S. Department of Agriculture (USDA) Marketing Assistance: USDA's Marketing Assistance Project is designed to facilitate the marketing of high-value fruits and vegetables from Armenia's Ararat Valley for export and domestic consumption, through technical assistance, microgrants and a credit program for farmers' associations, agribusinesses and food processors. In FY 1996, 27 microgrants totaling \$150,000 were provided for food processing, storage, transportation, packaging and bottling. In addition, technical assistance was provided by five U.S. extension marketing specialists and 300 Armenian extension agents. Proceeds from monetized commodities were used for grants, credit and salaries for local extension personnel.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA donated approximately 19,500 metric tons of commodities to Armenia through U.S. private voluntary organizations (PVOs). CARE was monetizing 10,000 metric tons of soybeans, and the United Methodist Committee on Relief (UMCOR) was monetizing 6,000 metric tons of vegetable oil. The objectives of the monetization programs were to support health and educational programs, to increase agricultural production and access to necessary inputs, and to provide funds and expertise for business development projects. The Fund for Armenian Relief also received approximately 3,000 metric tons of commodities, while the American Red Cross received 485 metric tons—both PVOs plan to distribute these commodities to vulnerable groups in Armenia. In FY 1996, Armenia made the transition from receiving donations under USDA's Food for Progress program to participating in the P.L. 480 Title I Concessional Sales Program, through which USDA financed the purchase of approximately \$14.0 million worth of wheat by the Government of Armenia. As a result, the Armenian

Government has agreed to continue its efforts to promote banking reforms, to reduce its dependence on barter trade with other NIS countries, and to continue the implementation of a plan to privatize state-owned firms, including processing facilities and agricultural input firms.

Trade and Investment Programs: With assistance from our embassy, a U.S. firm won a \$16.5 million contract financed through the European Bank for Reconstruction and Development (EBRD) for construction of an air cargo terminal in Armenia; a U.S. banking group, Wasserstein Perella & Company, won a contract to sell off Armenia's ten largest state enterprises; an \$18 million partnership agreement was signed by Golden Girl, Inc. for the construction and operation of a large poultry farm and processing complex; and the U.S. company Global Gold won a \$10 million contract for gold mining in Armenia. U.S. investors were also active in the following sectors: power generation, electronics, software engineering, food processing and distribution, and construction. A number of contracts were expected in the construction of power plants, the assembly of electronic products and the production of machine-made rugs. Additional potential for U.S. investment was identified in the country's treasury-bill market, as well as in its hotel and restaurant, electronics and food-processing sectors. In March 1996, the Midland Armenia Bank, a branch of the Midland Bank—a member of the Hong Kong-Shanghai Banking Corporation (HSBC) Group—opened its doors in Yerevan. The bank, which is the first major foreign bank to open a branch office in Armenia, has a charter capital of \$10 million—more than any currently operating Armenian bank. The presence of such a powerful foreign competitor is expected to encourage Armenian banks to increase their efficiency and improve their investment policies.

Business and Economic Development Programs: The USAID-funded Center for Policy Research and Analysis (CEPRA) helped the Government of Armenia continue negotiations on accession to the World Trade Organization (WTO), which is expected to take place in 1997. If it does take place as expected, Armenia will be the first of the former Soviet republics to join the WTO. USAID-funded advisors also helped the Government of Armenia to develop reform-oriented laws and enabling legislation, including a mortgage law, condominium law, law on local self-government and a law on real property; and continued working with the government on a national budget law.

- **U.S. Treasury Department:** A U.S. Treasury Department advisor helped the Government of Armenia develop a market for government securities. As a result of this effort, by the end of July 1996, over 9.4 percent of the country's budget deficit was financed by the government's domestic borrowing. Commercial banks, including the Midland Armenia Bank (see above), are the largest buyers of government securities.
- **Eurasia Foundation Small-Business Loan Program:** The Eurasia Foundation operated a pilot small-business loan program in Armenia, which worked through local commercial banks to make loans to support small-business manufacturing and service-sector projects in regions where suitable financing was otherwise not available. The loans, which were denominated in dollars and ranged from \$15,000 to \$100,000, were made for terms of one or two years and were secured with appropriate collateral. The program also provided training and technical assistance to partner banks with the goal of encouraging them to lend their own capital to small businesses over the longer term. In FY 1996, the Eurasia Foundation made a total of \$1.5 million in small business development loans to small- and medium-sized enterprises in Armenia.
- **USAID Financial Sector Programs:** In FY 1996, USAID-funded advisors supported the integration of Armenia's domestic accounting systems and electronic delivery for international payments. In September 1996, a new initiative was launched to create a major commercial banker training center in Armenia. The center will provide training to all levels of personnel in private-sector banks, including training on techniques unique to commercial banking, such as credit analysis and asset-liability management.

Training and Exchange Programs

USIA Exchanges: In FY 1996, over 130 Armenians participated in USIA-sponsored exchange programs. The head of Armenia's Constitutional Court and six parliamentarians traveled to the United States to study the U.S. judicial and political systems, respectively. Another successful program enabled four defense attorneys and two judges to spend three weeks in the United States studying questions of legal standing and constitutional protection. In addition, Superior Court Judge Marlene Kristovich traveled to Armenia under a USIA program to discuss civil rights and judicial issues with members of Armenia's legal community. This program was particularly effective in that it fostered interaction among Armenia's legal community on issues such as constitutionally guaranteed rights, civil rights in the trial process, and the role of the state in the judicial process. USIA also launched a university partnership between the Bolt Law School of the University of California at Berkeley and the American University of Armenia (AUA), under the auspices of which a master's degree program in law (LLM) was established at AUA. The first class of students enrolled in the new LLM program in September.

USAID NIS Exchanges and Training (NET) Project: In FY 1996, the NET Project sponsored eight two- to three-week technical courses in the United States for 62 Armenian participants. Topics included national budgeting practices, bank supervision, fiscal accountability, media viability, agribusiness and the role of nongovernmental organizations (NGOs). In addition, in-country follow-up workshops were conducted for 200 NET alumni.

U.S. Department of Commerce - Special American Business Internship Training (SABIT) Program: Six Armenians participated in SABIT programs in the areas of oil and gas standards, construction and infrastructure standards, banking and insurance, and environmental protection.

Peace Corps: As of the end of FY 1996, there were 52 Peace Corps volunteers—30 English teachers and 22 business development specialists—placed in Armenia. Both categories of volunteers worked very closely and effectively with Armenian Government agencies, as well as with other foreign donor agencies. Peace Corps volunteers in Armenia were also indispensable partners to various U.S. Government-funded development programs. For example, business development volunteers worked closely with the Eurasia Foundation's loan and grant programs, and with USDA's marketing program.

- **Business development volunteers** established four new business development centers in regions outside of Yerevan. One volunteer established a program for women in business in Gyumri. A business volunteer at Sisian College of the National Economy worked with an agribusiness cooperative in Bernagot to secure funding for the purchase of a tractor, sprayer and fertilizers. The volunteer helped the cooperative improve its crop production, its farming resources, and its overall performance. Another business volunteer helped a cattle cooperative in Zouk to secure funding for the purchase of a much-needed tractor. A Peace Corps volunteer in Vanadzor helped the Business Women's Committee of Armenia to organize a youth summer camp for disadvantaged youth.
- **English-teaching volunteers** not only taught English in local schools, but in many cases taught English classes for adult groups in the community, as well as specialized English classes for local nongovernmental organizations (NGOs) and other community-development groups. A volunteer in the town of Karpi worked to repair a local secondary school and equip its classrooms with desks and chairs. Three Peace Corps volunteers conducted a diversity tour to eight communities around the country, with the goal of educating students and local resident about American culture, ethnic diversity and the Peace Corps' activities. Volunteers also distributed information about NGO development.

Democracy Programs

USAID Democracy and Governance (DG) Program: In FY 1996, USAID's DG Program in Armenia focused on two objectives: 1) increased and better informed participation of citizens in political and economic decision-making; and 2) the development of a legal system that more fully supports democratic and market reform. Under the first of these objectives, the DG Program focused on building the capacity of Armenia's independent media, on promoting electoral reform, and on promoting the development of political pluralism and indigenous nongovernmental organizations (NGOs). Under the second objective, the DG Program focused on the development of democratic legislation, reform of the legal profession, and

reform of the judiciary. Although much of the progress made in these two areas during the last half of FY 1996 was subsequently eroded by the events surrounding the September 22 presidential elections, substantial progress had nevertheless been made. In FY 1996, USAID obligated a total of approximately \$3.3 million for ongoing and newly established DG programs in Armenia.

- **International Foundation for Election Systems (IFES):** IFES's USAID-funded democracy activities had facilitated a substantial amount of electoral reform during the six months prior to the presidential election. For example, IFES had made some impressive initial progress in helping to shape the new laws governing presidential and municipal elections, as well as the new electoral procedures. Even though the effectiveness of these new laws and procedures was seriously undercut during the presidential elections, the OSCE's final report on the elections noted that the "legal framework for these elections was a clear improvement on previous electoral legislation."
- **National Democratic Institute (NDI):** The National Democratic Institute (NDI), also funded by USAID, organized a series of well-attended training programs for various political parties, designed to improve their ability to conduct constituency outreach, platform building, campaigning, and election observation. As a result of this training, the organizational capacity of the participating political parties noticeably increased. However, Armenia's ruling party, the ANM, declined most offers of assistance and training; a domestic election-monitoring group supported by NDI fell apart due to internal dissension; and the Government of Armenia undeservedly criticized NDI for publishing a guidebook for domestic election monitors.
- **Legislative Drafting and Judicial Reform Assistance:** In the area of legislative drafting, USAID-funded programs implemented by the Associates in Rural Development/Checchi Consortium (ARD/Checchi) and the American Bar Association's Central and East European Law Initiative (ABA/CEELI) were influential in shaping Armenia's new civil code, as well as a new law on nongovernmental organizations (NGOs). USAID launched a program to assist in the drafting of a new criminal code and code of criminal procedure—legislation critical for the protection of human rights, as well as for regularized economic activity—to replace Armenia's Soviet-era criminal legislation, which is still in effect. USAID also supported judicial reform by providing equipment and training to Armenia's new Constitutional Court in order to improve members' skills and increase the court's capacity for judicial independence.

USIA Democracy Programs: USIA provided \$100,000 in assistance to Armenia's independent radio and television stations. Among programs supported by USIA were local news shows, a television series on the rule of law and elections, and a radio series on all aspects of the presidential and municipal elections, including discussions with the candidates. USIA also funded the purchase of equipment to enable private television stations to broadcast independently from state television facilities. In addition, USIA allocated \$30,000 for printed materials and seminars on electoral law, civil society and democracy. For example, copies of the electoral law were produced for local electoral committees throughout the country, as was a booklet containing the platforms of all parties participating in the municipal elections.

USAID Energy Programs: In FY 1996, USAID allocated \$6.7 million to energy programs intended to help the Government of Armenia move towards a more stable energy environment through restructuring of the country's power sector, increased energy efficiency, and improved nuclear safety. The Ministry of Energy acted upon the recommendations of USAID-funded advisors and separated the generation, transmission and distribution functions of Armenia's electric-power sector, placing them in separate state enterprises. The Government of Armenia has agreed to privatize 15 small hydroelectric plants in 1997—these will be the first privatized electric-power assets in the country. USAID-funded advisors helped install a computerized management information system at the Ministry of Energy—the first such system in the region—which will provide comprehensive energy data needed for rational planning and policy making in the energy sector. USAID also started pilot commercialization projects with the goal of strengthening the energy sector's commercial operations by introducing internationally accepted accounting standards and improved metering, billing and collection practices. In addition, the Ministry of Energy contracted with an Armenian-American company for oil and gas exploration; three wells will be drilled to determine whether or not exploitable oil and gas resources exist.

Nuclear Reactor Safety Programs: The U.S. Department of Energy (DOE) signed a memorandum of agreement with the Ministry of Energy for a two-phase plan to install improved fire-safety systems at Armenia's Medzamor nuclear power plant beginning in late 1996. USAID initiated efforts to support the development of a least-cost energy investment plan that would enable the Armenian Government to fulfill its commitment to shut down the Medzamor nuclear power plant by 2004.

U.S. Nuclear Regulatory Commission (NRC): In FY 1996, the NRC continued its efforts to strengthen the Armenian Nuclear Regulatory Authority (ANRA) and to help develop its nuclear regulatory and oversight capability, consistent with the U.S./G-7 policy priority of addressing safety concerns associated with Soviet-designed nuclear reactors. The NRC provided training in site security, spent-fuel and waste-management and seismic issues to approximately 30 Armenian regulators, bringing the total number of individuals trained since the inception of the program to 35. In response to the restarting of the Medzamor Nuclear Power Plant's Unit Number 2, the NRC revised its program plans to include training on operating nuclear reactors. In FY 1997, NRC plans to provide training in areas such as embrittlement of metals, power-reactor inspection techniques, licensing of previously operating reactors and reactor decommissioning.

USAID Weatherization Assistance: In FY 1996, USAID successfully completed its weatherization program in Armenia, which reduced energy losses at over forty buildings throughout Armenia, including 19 hospitals and clinics, seven schools and three refugee centers. The program resulted in the creation and registration of an Armenian NGO providing weatherization services.

USAID Alternative Dispute Resolution Program: In late FY 1996, USAID began implementing a program designed to develop a knowledge base for alternative dispute resolution, so as to prevent the overloading of an already overburdened court system. A seminar on alternative dispute resolution techniques and methodologies was held in Armenia in late 1996 based upon a proposal submitted by various Armenian Government officials, and members of the bar and judiciary.

AZERBAIJAN

In FY 1996, the U.S. Government provided an estimated total of \$34 million in assistance to Azerbaijan. (This includes appropriated funds, as well as roughly \$4 million in donated humanitarian goods transported by the U.S. Government.) Section 907 of the FREEDOM Support Act of 1992 prohibits U.S. Government assistance to the Government of Azerbaijan. Most U.S. Government assistance to Azerbaijan is therefore provided in the form of humanitarian assistance programs directed towards refugees and internally displaced persons (IDPs) through U.S. private voluntary organizations (PVOs). Some U.S. PVOs have tried to move beyond providing humanitarian relief: they have started providing technical assistance to farmers working on newly privatized lands, and they are supporting the development of local nongovernmental organizations (NGOs). However, this is only a small part of our total assistance. Humanitarian relief targeted at relieving the suffering of refugees and IDPs remains the biggest part of our assistance. A small share of our assistance has been provided in the form of non-humanitarian programs, such as training and exchange programs, and programs supporting the development of private farms.

Political and Economic Overview: In FY 1996, President Aliyev and his executive office exercised highly centralized decision-making which dominated the political situation in Azerbaijan. The new constitution, adopted through a national referendum in November 1995, solidified the power of the president. The new parliament, elected at the same time as the referendum, was controlled by supporters of President Aliyev. According to OSCE observers, the November 1995 parliamentary elections fell short of full compliance with international standards. Nevertheless, opposition political parties as well as independent print and broadcast media continued to take an active part in the country's political life. Although economic opportunities for the bulk of Azerbaijan's population remained bleak, the Government of Azerbaijan succeeded in stabilizing the country's economy and began some economic reforms.

Humanitarian Assistance

“Save the Children” Umbrella Grant: In FY 1996, the U.S. Government continued to provide most of its humanitarian assistance through an umbrella grant to Save the Children (STC). Under the direction of USAID, STC distributed this funding to other U.S. PVOs which executed relief projects targeted at Azerbaijan’s refugees and IDPs. In FY 1996, STC distributed almost \$7.02 million in active project funding for the following activities:

- CARE provided assistance on a self-help basis for basic repair (500 families) and weatherproofing (500 families) to existing shelters, and built new mud-brick houses (1,200 families) and latrines (1,200 families).
- Relief International's mobile health teams continued their program of monthly visits to IDP communities, bringing health care to 20,000 patients.
- The International Relief Committee (IRC) distributed clothing to 2,000 families, built new mud-brick houses for 800 families, and provided assistance on a self-help basis for basic shelter repair for 500 families.
- World Vision International (WVI) received operational funding for the distribution of U.N. World Food Program food to 115,000 IDPs. With this same funding, WVI also distributed UNHCR-provided commodities, including latrine and water-filtration kits to 6,000 families, Dutch vegetable seeds to 12,000 families, and sewing kits to 6,000 families.
- In cooperation with the Azerbaijani Red Crescent Society (AzRCS), the American Red Cross (ARC) distributed supplementary food and non-food items to over 32,000 of the most vulnerable inhabitants of eight districts along the current ceasefire line. This \$433,000 program, which was funded by the State Department’s Bureau of Population, Refugees and Migration, provided four categories of relief assistance: food parcels, soap, blankets, and detergent. As part of this program, ARC implemented basic first-aid training for AzRCS’s local branches. ARC’s relief program in the front-line districts has been extended into FY 1997.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA’s Food for Progress program provided over \$18.65 million in food aid to Azerbaijan in the form of 14,000 metric tons of commodities to be distributed through three U.S. private voluntary organizations (PVOs): CARE (6,500 metric tons), the American Red Cross (1,500 metric tons), and the Adventist Development and Relief Agency (6,000 metric tons). ADRA delivered the food aid to 40,000 needy families throughout Azerbaijan, while CARE distributed the food aid to internally displaced persons (IDPs) within its designated operating area. The commodities included wheat flour, vegetable oil, rice and beans. These direct-feeding programs benefited approximately 438,000 individuals belonging to populations severely at risk, including displaced families, refugees, school children and the elderly.

Coordinator’s Office Humanitarian Assistance: The Coordinator’s Office provided the United Methodist Committee on Relief (UMCOR) just over \$358,000 for an emergency medical distribution project for almost 107,000 IDP beneficiaries. UMCOR established eight medical teams in UMCOR-controlled medical clinics located in or adjacent to IDP collection centers throughout the Apsheron Peninsula. In FY 1996, the Coordinator’s Office delivered almost \$4.0 million in donated medical and food commodities to Azerbaijan.

U.S. Humanitarian Assistance through United Nations Agencies: The United States is one of the main donors to the U.N. World Food Program’s (WFP) IDP supplementary feeding program in Azerbaijan. In FY 1996, the U.S. Government gave WFP \$2.65 million for the delivery of food support to needy people in Azerbaijan. WFP procured and delivered wheat flour and vegetable oil to Azerbaijan, and distributed it nationwide in cooperation with World Vision International. In FY 1996, the U.S. Government also contributed \$1.7 million to the U.N. High Commissioner on Refugees (UNHCR) for relief programs in Azerbaijan.

Training and Exchange Programs: In FY 1996, the U.S. Government continued to encourage political and economic development in Azerbaijan through its training and exchange programs. USIA's Secondary School Initiative sent 35 Azerbaijani teenagers to live with American families and attend high school for one year, while 25 people received fellowships to pursue graduate degree or non-degree programs in the United States. USIA's International Visitor (IV) Program sent two groups of eight Azerbaijani entrepreneurs to the United States. USAID's NIS Exchanges and Training (NET) Project brought 40 Azerbaijanis to the United States for three-week seminars, including private bankers, small-business leaders, and human-rights activists. USDA's Cochran Fellowship Program brought six private Azerbaijani farmers to the United States for short-term training.

Democracy and Governance Programs: Due to Section 907 restrictions, U.S. democracy and governance programs had a restricted audience. Nevertheless, in FY 1996, two U.S. organizations, ISAR and the National Democratic Institute (NDI), implemented democracy and governance programs in Azerbaijan. Using USAID funding, ISAR provided training and development support to nongovernmental organizations (NGOs). Using funding from USAID and the National Endowment for Democracy, NDI supported the development of political parties and human-rights organizations in Azerbaijan.

FY 1997 Programs: Since Section 907 remains in effect for FY 1997, U.S. Government assistance will remain mainly humanitarian in nature. Our assistance programs in Azerbaijan will continue to work towards reducing human suffering while simultaneously starting some small development projects. The U.S. Government will continue to cooperate with the United Nations and other international organizations in implementing humanitarian assistance programs, providing an additional \$1.5 million to support the continuation of the World Food Program's food distribution program in Azerbaijan.

BELARUS

As a result of the Belarusian Government's inattention to reform, U.S. Government assistance to Belarus was extremely modest in FY 1996—an estimated \$65 million (this includes appropriated funds, as well as approximately \$40 million in donated humanitarian goods transported by the U.S. Government). As in prior years, our assistance programs for Belarus were sharply focused on the grassroots level in areas where reform showed the most promise of taking hold and where U.S. interests were most clearly defined. Most of these programs were effective, particularly those in support of economic restructuring and democratization.

Political and Economic Overview: The goal of our assistance to Belarus is to support the country's development as an independent, non-nuclear, market-oriented, democratic state; however, in FY 1996, Belarus retreated further from democratic and economic reform. During the latter half of the fiscal year, the Government of Belarus took further measures to limit the independent media, closing two radio stations and impeding the work of several newspapers. Meanwhile, the state media provided one-sided coverage of the president's illegitimate November 1996 referendum aimed at amending the constitution to expand his own powers. In the run-up to the referendum, the president reintroduced price controls on basic goods and services.

U.S.-Belarus Business Development Committee (BDC): The second session of the U.S.-Belarus Business Development Committee was held in late May in Minsk. The U.S. side urged Belarusian officials to adopt stable and rational economic policies to attract foreign investment and addressed the need for adherence to human rights, pointing out that international financial support will only come as a result of such economic and political reforms. The U.S. side stressed the importance of working with the International Monetary Fund (IMF) in developing and implementing macro-economic reform and privatization, and outlined specific steps necessary for establishment of a viable commercial environment in Belarus. The two sides also discussed actions to be taken to resolve problems related to specific commercial projects. (see also BDC section in Part III)

Security Programs: In FY 1996, \$13.9 million was obligated under the Defense Department's Cooperative Threat Reduction (CTR) programs in Belarus; as of the end of FY 1996, \$77.4 million out of a total of \$120 million in CTR funds for Belarus had been obligated. Through CTR programs, the U.S. Government has provided assistance in the destruction and dismantlement of weapons of mass destruction, emergency response equipment and training and export control assistance. Through CTR, the U.S. Government is assisting in the disposition of liquid rocket fuel and the elimination of SS-25 launcher foundations in accordance with START procedures. With such U.S. assistance, the last SS-25 nuclear rocket was removed from Belarus in November 1996 making Belarus a non-nuclear weapons state. Also among the highlights of the CTR program for Belarus in FY 1996 were the equipping of an AN-26 aircraft with remote sensors and photographic equipment to enable Belarusian scientists to collect data about contaminated areas, the remodeling of a laboratory to analyze the data collected by the AN-26, and security upgrades at the Sosny research facility to prevent the smuggling of nuclear materials. However, the implementation of CTR programs in Belarus encountered several problems in FY 1996. The Government of Belarus denied U.S. contractors access to installations for providing agreed-upon assistance in the destruction of SS-25 launch pads. In addition, the Belarusian Government attempted—in violation of the CTR agreement—to tax the U.S. contractor building housing under a defense conversion project for former military officers in Grodno. Other security related program activities were also limited over the year in Belarus (see also Security Programs section in Part III)

Economic Restructuring Programs: Since late 1993, USAID has been funding the International Finance Corporation's (IFC) small-scale privatization program, which has been hailed as the only successful privatization program in Belarus. The IFC now operates in ten cities, including Minsk. As of the end of FY 1996, the IFC had assisted in the privatization of 248 stores and restaurants through 88 auctions; the vast majority of these were sold to individual Belarusian citizens (only four were sold to foreigners and 24 to workers' collectives). The auctions generated revenue totaling over \$6.3 million, and the privatized businesses have proven successful and have encouraged competitive practices among neighboring state-owned businesses. By contrast, the Western NIS Enterprise Fund (WNISEF) has yet to establish a functioning presence in Belarus. In September 1996, the fund hired a Belarusian citizen to serve as its representative in Minsk. (see also USDA Emerging Markets Program)

Democracy Programs: USIA-sponsored exchanges, the American Bar Association's Central and East European Law Initiative (ABA/CEELI), and the Eurasia Foundation were the backbone of the U.S. Government's efforts to build support for democratic institutions in Belarus in FY 1996.

- **USIA Exchange Programs:** In March, USIA sent 12 parliamentarians to the United States for three weeks to study legislative structures and practices at the federal and state levels. In May, the Chairman of the Belarusian Supreme Soviet Semyon Sharetskiy traveled to the United States on a USIA program, during which he met with members of Congress and studied North Carolina's state legislature. In addition, USIA brought Belarusian students and teachers to the United States on secondary school exchanges, teacher exchanges, and undergraduate and graduate fellowships; and sponsored the visits of two U.S. legal experts who led seminars on legal skills.
- **ABA/CEELI:** USAID funded two permanent ABA/CEELI representatives in Minsk. In February, ABA/CEELI sponsored a seminar on the rule of law, in which over 200 people participated, including members of the Constitutional Court. In cooperation with the Soros Foundation and the Union of Jurists, ABA/CEELI opened Belarus's first publicly accessible international law library. In addition, ABA/CEELI conducted seminars throughout Belarus to educate jurists in legal skills, initiated efforts to support the establishment of a law students' association, and assisted with the production of a manual on legislative drafting as a supplement to training provided to 75 Belarusian legislators, government employees, lawyers and judges in October 1995.
- **Eurasia Foundation:** The Eurasia Foundation provided grants to support economic reform, nongovernmental organizations (NGOs), independent media and electronic communications. Many of the grants awarded by the Eurasia Foundation in FY 1996 were aimed at providing Internet access to schools and teaching computer skills; for example, one such grant will fund the purchase of computer equipment to improve the quality of economic education at a women's school.

Humanitarian Assistance: USAID-funded NGOs, such as Counterpart, continued to support victims of Chernobyl by distributing donated commodities such as medicine and clothing. In addition, the U.S. Government funded shipments to Belarus of humanitarian goods collected and distributed by Citihope International; and provided \$388,000 to support U.S.-Belarusian hospital partnerships. The Coordinator's Office delivered approximately \$40 million in privately donated and Defense Department excess commodities to Belarus in FY 1996.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA provided approximately 36,000 metric tons of soybean meal to the Government of Belarus under a P.L. 480 Title I food assistance program. The Belarusian Government agreed to continue its efforts to improve food security, alleviate poverty, and promote broad-based, equitable and sustainable agriculture. USDA also donated approximately 1,600 metric tons of commodities to Citihope International under its Food for Progress program. Citihope began monetizing the commodities and using the proceeds to support small business development in Belarus. USDA was not able to include Belarus in its initial allocation list for FY 1997 Title I food assistance, as Title I resources are quite limited.

GEORGIA

In FY 1996, the U.S. Government provided \$121.2 million in assistance to Georgia, of which technical assistance accounted for \$65.5 million (53 percent) and humanitarian assistance accounted for \$55.7 million (47 percent). The latter figure includes an estimated \$42.34 million in privately donated humanitarian commodities—largely medicines—transported by the U.S. Government. During the past fiscal year, U.S. Government assistance to Georgia continued to transition from humanitarian aid to development assistance, with an increasing share of resources being devoted to democracy and governance programs—a reflection of the U.S. Government's belief that the rule of law and confidence in democratic institutions are crucial for the continued success of Georgia's economic and political reforms.

Political and Economic Overview

Political and economic reform continued at an impressive rate in Georgia in FY 1996. Led by a vigorous and progressive parliament, the Georgian Government controlled inflation while reinforcing the national currency, the lari. Targets set by the International Monetary Fund (IMF) targets were met, as were thresholds set by the World Bank. Modest improvements in the country's court system and police organizations were also seen, as the government began to pay an increasing amount of attention to rule-of-law issues. Following his election as president in November 1995, Eduard Shevardnadze declared two primary goals for his administration: developing a new generation of Georgian leaders and making reform irreversible. An impressive group of young parliamentarians, hand-picked by President Shevardnadze, has led the effort to create the body of law necessary for continued reform.

Serious problems remained, however—corruption continued to be endemic in Georgian society. While organized crime's grip on Georgia was broken in the months following the August 1995 attempt on Shevardnadze's life, continuing official corruption kept public confidence in the government quite low. Tax collection increased due to zealous enforcement efforts, but most Georgians continued to see their tax money as going into the pockets of corrupt officials rather than serving the public good. Similar attitudes resulted in low collection rates on electric power as well. Although Georgia was successful in rescheduling a significant portion of its \$1 billion foreign debt, the remaining debt and the country's poor credit rating restricted economic growth.

International investment in Georgia expanded dynamically in FY 1996. The Georgia Pipeline Company, a wholly owned subsidiary of the Azerbaijan International Oil Company, opened an office in Tbilisi and began design and procurement work on the western early oil pipeline. U.S. agribusinesses were active in marketing specialty chemicals, seed and other high-value inputs in Georgia, and independent entrepreneurs continued to invest in the country's small-business sector. Several major corporations plan to open warehouses and begin distribution operations in Georgia in early 1997 with a view to serving the Transcaucasian market.

Eurasia Foundation: In FY 1996, the Eurasia Foundation's grantmaking program in Georgia focused on local activities and nongovernmental organizations involved in democracy-building, environmental issues and economic reform, particularly independent media. The Foundation's comprehensive vetting process for grant proposals continued to set the standard for all other grantmaking programs in Georgia, making it one of our most effective means of delivering targeted assistance.

Democracy Programs

- **USIA Exchanges:** USIA sent four Georgian officials to the United States for a program on civil-military relations, and four legislators for a program on the U.S. legislative process. Five Georgians participated in a USIA program on civil participation in the United States, while another studied how to build democracy in diverse communities. USIA also sent the chairman and deputy chairman of the Georgian Parliament's Legislative Committee to Washington to attend a conference on the U.S. legislative process and judicial system. In addition, USIA-sponsored speakers addressed Georgian audiences on topics including the role of the press in conflict resolution, how to develop a legislative basis for nongovernmental organizations (NGOs), Georgian national security, and the development of mass media in Georgia. Our embassy judged these programs to be very effective.
- **"Democracy Fund" Small Grants Program:** An embassy-based, USIA-administered Democracy Fund was used to fund several successful projects, including a conference on law and media, translations into Georgian of materials on democratic principles, a handbook on the development and management of nongovernmental organizations (NGOs), a Model United Nations program, a regional conference on security in the Caucasus, and assistance in producing television programming on individual rights. Our embassy was able to use this highly flexible, rapid-response grantmaking mechanism in a very effective manner.
- **National Democratic Institute:** The USAID-funded National Democratic Institute (NDI) played a key role in the international effort to monitor Georgia's November 1995 presidential and parliamentary elections. NDI also organized several roundtables and seminars to promote political pluralism and facilitate political party development.
- **ABA/CEELI Rule-of-Law Assistance:** The Tbilisi-based representative of the American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI) worked effectively to strengthen and professionalize Georgia's legal system. The ABA/CEELI attorney acted as a rule-of-law liaison to the Georgian Parliament, providing legislative drafting assistance. ABA/CEELI short-term advisers worked in several areas, including legislative drafting and the investigative function of a legislature.
- **Support for Independent Media:** USAID grantee Internews provided training to develop the technical, management and professional skills of Georgian journalists. An Internews representative also worked closely with other advisers and embassy officers to address the issues raised in a licensing case involving the independent television station Rustavi 2, a key member of the independent television network that Internews has worked to establish. In addition to providing equipment grants to members of the network, Internews produced a weekly Georgian news program which included segments produced by regional stations that received equipment from Internews.
- **Internet Access for the Georgian Parliament and NGOs:** The USAID-funded Parliamentary Human Rights Foundation continued to broaden access to the Internet for Georgian parliamentarians and their staff, thus facilitating the continued development of Georgia's legal infrastructure. Additional hookups for a variety of governmental and nongovernmental organizations were in progress, with the goal of expanding public participation in the legislative process.

Business and Economic Development Programs: The USAID-funded Center for Economic Policy and Reform (CEPAR) was established to help the Government of Georgia improve the country's legal, institutional and regulatory framework so as to promote economic growth, foreign investment and private-sector development. During the past fiscal year, CEPAR organized a legislative drafting workshop, provided advice on Georgia's new anti-monopoly law, and authored an important study on the long-term economic impact of membership in the Customs Union of the Commonwealth of Independent States

(CIS). After some early difficulties, this program ultimately achieved substantial results. A U.S. Treasury Department-sponsored senior budget adviser provided the Georgian Ministry of Finance with advice on budget formulation, presentation and forecasting; and was instrumental in the Georgian Government's decision to establish a budget unit independent from the Ministry's operational departments—a critical move in the upgrading of the government's overall budget process. In addition, a USAID-funded program to modernize Georgia's banking-sector communications was initiated in late FY 1996.

Training and Exchange Programs: Georgia's USIA-funded Institute for Public Administration (IPA) graduated its second class of students in November. Nearly all of last year's 27 graduates are now employed in the public sector, some of them in high-level policy positions in the Georgian Parliament and Ministry of Foreign Affairs. Despite initial problems in developing IPA's administrative structure, IPA is turning out successful graduates and is developing a very good reputation. In addition, four Georgians traveled to the United States under a USIA-sponsored program on the U.S. economic system. Three others participated in a USIA program on agriculture and the marketplace. USIA also sent a Georgian journalist to a World Bank seminar on economic journalism.

Energy-Sector Reform Programs

- **Electric Power Sector Programs:** Under a USAID-funded program, Burns and Roe Enterprises, Incorporated provided Georgia with a variety of engineering, technology and technical assistance services, including commodity procurement and engineering equipment and training. Upon completion, Burns and Roe's loan analysis and technical assistance are expected to leverage a \$60 million power-sector rehabilitation loan to Georgia by the World Bank. U.S. Government assistance to Georgia's electric-power sector was sharply focused on legal and regulatory reform. USAID-funded Hagler-Bailly advisers assisted in the drafting of a new law on the electric-power sector, which will create an independent regulatory body and lay the foundation for the sector's privatization. In FY 1996, the Georgian Government overcame its initial reluctance to take radical steps in reforming the country's electric power sector, and decided to separate the sector's generation, transmission and distribution functions. As FY 1996 came to a close, the focus of U.S. Government assistance in this area turned to energy policy. In FY 1997, USAID-funded advisors will work with the Georgian Government and the World Bank to develop a strategy for rationalizing the country's electricity tariffs, which are still quite low.
- **Oil and Gas Sector Programs:** USAID grantee Hagler Bailly worked with the Government of Georgia to help facilitate the creation of the Georgia International Oil Company (GIOC), as well as the successful completion of negotiations between the GIOC and the Azerbaijan International Operating Company (AIOC) on the construction of a pipeline to transport crude oil from Azerbaijan to the Black Sea. USAID helped develop a donor coordination committee to identify and target the GIOC's priority assistance needs, facilitated the placement of a controller from the British Know-How Fund who is helping the GIOC maintain its accountability and transparency, and helped secure funding from TACIS (the European Union's technical assistance program for the NIS) for an environmental impact analysis needed to start pipeline construction, as well as funding from the United Nations Development Program for the clean-up of the Gachiani rail terminal. In FY 1997, USAID will continue to provide legal and technical assistance to strengthen the GIOC's commercial operations, and will continue to help the Georgian Government restructure the country's oil and gas sector and develop a market-oriented legal and regulatory framework, thus laying the foundation for expanded private-sector participation in the sector.

Humanitarian Programs: The International Organization for Migration's (IOM) capacity-building project provided training to leaders of Georgian Government agencies dealing with refugee issues. IOM also made a concerted and successful effort to upgrade the capabilities of the Georgian Government's bureau for the coordination of international humanitarian aid. In addition, under a USAID umbrella grant, Save the Children provided effective guidance and oversight to 15 humanitarian programs managed by eight nongovernmental organizations.

- **U.S. Department of Agriculture (USDA) Food Assistance:** In FY 1996, USDA provided \$30 million worth of wheat to the Government of Georgia under its P.L. 480 Title I-funded Food for Progress program. The conditions placed on this assistance played a critical role in the successful privatization

of Georgia's bread-making sector: the Georgian Government agreed to continue to support the privatization of large stores which market produce from lease and peasant farms, and to support agribusiness privatization by providing the wheat to private-sector bakeries. Also under its Food for Progress program, USDA donated approximately 21,000 metric tons of commodities to U.S. private voluntary organizations (PVOs) for distribution in Georgia. USDA signed agreements with the following PVOs for direct-distribution programs: the Christian Rescue Mission (500 metric tons), the International Orthodox Christian Charities (1,500 metric tons), and the Salvation Army World Service Office (6,500 metric tons). These PVOs distributed the commodities in hospitals, nurseries and orphanages. In addition, Agricultural Cooperative Development International (ACDI) was monetizing 2,000 metric tons of soybean meal to fund agribusiness programs, and CARE was monetizing 11,000 metric tons of wheat to fund a project to increase agricultural production and household incomes in 5,000 Georgian farming households. Georgia will graduate to a concessional sales program in FY 1997, and USDA is considering Georgia PVO food assistance as well. Our embassy in Georgia considers these USDA programs to be very effective.

- **USAID Fuel Oil Program:** USAID's FY 1996 fuel oil program in Georgia was approximately 80 percent complete as of December 1, 1996, USAID having provided some 51,000 metric tons of mazout (low-grade fuel oil) to help maintain the energy supply to critical facilities such as hospitals. Although delivery milestones were not met, completion of the delivery process was expected before the fuel was going to be needed. The program used the donated mazout to promote reform and accountability in Georgia's energy sector.

USAID Farmer-to-Farmer Program: USAID's Farmer-to-Farmer Program, which is implemented in Georgia by Agricultural Cooperative Development International (ACDI), brought 20 U.S. volunteers to Georgia in FY 1996 for the purpose of sharing U.S. agricultural know-how with their Georgian counterparts.

KAZAKSTAN

In FY 1996, the U.S. Government provided an estimated \$94 million in assistance to Kazakstan. (This includes appropriated funds, as well as \$12 million in donated humanitarian goods transported by the U.S. Government.) Economic restructuring programs continued to receive the lion's share of U.S. Government technical assistance and training resources for Kazakstan in FY 1996, with an increasing emphasis on trade and investment, as well as on legal and regulatory reform. Privatization programs, which were initially an important component of our assistance to Kazakstan, were winding down before phasing out completely in FY 1997. Meanwhile, a larger share of resources was allocated to programs in support of democratization and the development of a civil society, as well as social transition, especially in the health sector.

Political Overview: As of the end of FY 1996, Kazakstan had in place several important elements of participatory democracy. Abuses of human rights were limited, and citizens enjoyed basic freedoms, including those of religion and speech. However, Kazakstan's parliament remained a weak institution, although it did take steps to reassert itself, for example, by introducing legislation and opposing some executive-branch proposals. In FY 1996, the United States' relationship with Kazakstan continued to broaden and deepen, compared to its early focus on nonproliferation issues after Kazakstan gained its independence. Issues of vital U.S. interest—access to energy resources, a stable investment climate, economic reform and democratic development—were at the heart of this expanding relationship. The Kazakstanis sought U.S. help in attracting foreign investment to their country. U.S. investment, notably in Kazakstan's energy sector, was increasing significantly.

Economic Overview: On the economic front, a positive growth rate of approximately one percent of GDP was expected in 1996, the first increase since 1989. The Kazakstani Government's tight monetary policy continued to earn support from international financial institutions. Privatization of large industrial enterprises continued during the latter half of the year, and the government announced a series of steps designed to increase transparency in the tendering process and ease the tax and regulatory burden on foreign investors. Investment in the oil and gas sector continued, led by the Mobil Oil Company's purchase of a 25-percent stake in the Tengiz oil field this past May. In December, the signing of a share-

transfer agreement for the Caspian Pipeline Consortium (CPC) improved the chances for construction of a pipeline that is expected to boost Kazakhstan's access to world energy markets (USAID-funded technical assistance is helping to promote oil and gas development in Kazakhstan). On the other hand, agricultural reforms continued to lag, and Kazakhstan's 1996 grain harvest was poor.

Trade and Investment Programs: In FY 1996, an increasing share of U.S. Government assistance resources for Kazakhstan was devoted to improving the country's trade and investment environment and ensuring that Kazakhstan becomes more closely integrated into the world economy.

- **Support for WTO Accession:** The Kazakstani Government's Memorandum on the Foreign Trade Regime, prepared with the help of USAID-funded advisors and submitted to the World Trade Organization (WTO) in Geneva in July 1996, represented a major step toward Kazakhstan's accession to the WTO.
- **Central Asian - American Enterprise Fund (CAAEF):** The CAAEF continued to provide much-needed investment capital to local entrepreneurs, while USAID-funded nongovernmental organizations (NGOs) such as Volunteers in Overseas Cooperative Assistance (VOCA), Winrock, and Agricultural Cooperative Development International (ACDI) continued to play an important role by helping these local entrepreneurs to develop bankable business proposals. For example, ACDI and the CAAEF worked together to facilitate the formation of a \$3 million joint stock company by Koch International of Kansas City and Tseva Corporation of Akmola, Kazakhstan, for the purpose of building a meat-processing plant.
- **Department of Commerce - BISNIS, ABC Programs:** The Commerce Department's Business Information Service for the NIS (BISNIS) continued to serve as a clearinghouse for U.S. companies doing business in Kazakhstan, and an American Business Center (ABC) opened in Almaty in September. The Almaty ABC will further facilitate links between U.S. and Kazakstani entrepreneurs. The Commercial Service continued to work with the State Department and USAID to remove obstacles to U.S. investment in Kazakhstan.
- **Department of Commerce - SABIT Program:** The Commerce Department's Special American Business Internship Training (SABIT) program also brought together a number of U.S. companies with the Kazakstani business community. SABIT programs in FY 1996 focused on banking, finance and defense conversion, and included approximately 70 Kazakstani participants.
- **USAID Agribusiness Partnership Program:** In FY 1996, two new joint ventures were established under this program, one involving a U.S. company with an Israeli partner in the manufacturing of portable grain-storage units, and the other consisting of a meat-processing venture with equity participation by U.S. and Kazakstani partners, as well as by the Central Asian - American Enterprise Fund (CAAEF).
- **U.S.-Kazakstan Business Development Committee (BDC):** The Executive Council of the U.S.-Kazakstan BDC held its second meeting in Washington in October 1995, during which it addressed issues including more progressive oil and gas insurance laws, pipeline access, value-added taxes (VAT) on investment capital, and arrearages to the U.S. Export-Import Bank. Kazakhstan's parliament subsequently passed legislation allowing foreign investment in the country's insurance industry, thus providing access for U.S. companies and improving the insurance coverage available to U.S. investors in Kazakhstan. During the third meeting of the Executive Council of the U.S.-Kazakstan BDC, which was held in late September in Almaty, the U.S. side welcomed Kazakhstan's success in enacting legislation which outlaws anonymous bank accounts, clearing the way for U.S. ratification of the Treaty for the Avoidance of Double Taxation. The Government of Kazakhstan also agreed to repeal a decree requiring mandatory insurance on petroleum operations, which had threatened to halt progress on oil and gas projects being developed by U.S. companies, and to work with our petroleum industry on adopting international standards. The U.S. Government reiterated its commitment to help Kazakhstan develop commercially viable transportation routes for oil and gas. The U.S. side also encouraged its Kazakstani counterparts to continue reforming the country's customs and tax systems, as well as procedures for open tenders. Other accomplishments of the U.S.-Kazakstan BDC in FY 1996 included the following: facilitating Kazakhstan's payment of its arrears to the U.S. Export-Import Bank,

the reduction and limitation of business tax inspections, the streamlining of registration procedures for businesses, the development of specifications regarding VAT exemptions for capital investment and tax provisions allowing production-sharing arrangements (a mechanism preferred by U.S. investors in natural resource projects), and the establishment of a joint working group with the Kazak Customs Committee to resolve customs problems faced by U.S. exporters. (see also BDC section in Part III)

Business and Economic Development Programs: Fiscal and financial-sector reform were the major foci of USAID-funded programs in this category in FY 1996. Tax-policy assistance focused on helping the Kazakstani Government to fine-tune and implement the country's new tax policy, regarded as one of the most modern and transparent in the all of the NIS. USAID's training and technical assistance in this area focused increasingly on overcoming business constraints and on promoting a legal and regulatory environment that would benefit both local and foreign businesses. A detailed analysis of these issues, prepared by USAID-funded advisors on the basis of a survey of Kazakhstan's business community, provided a fundamental agenda for this work and was circulated by President Nazarbayev among government ministries, with a view toward promoting further reform. Similarly, a long-term development strategy prepared in March by USAID-funded advisors for Atyrau, an oil-rich city on the Caspian Sea, was used by the Kazakstani Government to seek additional resources from the World Bank and other donors. (see also USDA Emerging Markets Program)

- **Support for the National Bank of Kazakstan:** Financial-sector assistance included support for the National Bank of Kazakstan in its effort to develop a viable financial sector in Kazakstan. Among other achievements, the bank supervision unit within the National Bank was revitalized and began identifying and closing down insolvent banks. In one case, the unit helped a private bank identify and recover \$30 million in outstanding loans.
- **Support for Privatization:** In FY 1996, privatization efforts in Kazakstan suffered from occasional delays and implementational difficulties. Nevertheless, the country's voucher privatization program is slated to end in January 1997. Cash auctions for residual shares of privatized enterprises will also conclude in January. USAID's support for privatization in Kazakstan will phase out in 1997, having achieved notable results. For example, as of early 1996, some 6,000 enterprises had been sold through cash auctions.

Training and Exchange Programs

- **USAID's NIS Exchanges and Training (NET) Project:** By the end of FY 1996, more than 630 Kazakstanis had participated in U.S.-based training courses through USAID's NIS Exchanges and Training (NET) Project. Notably, nearly 40 percent of these participants were women. NET's specialized training programs supported ongoing U.S. technical assistance in the areas of economic restructuring, democratization, and social transition.
- **U.S. Information Agency (USIA):** USIA organized a variety of training and exchange programs, including two public-administration seminars involving nearly 100 Kazakstani local officials; 22 of these officials subsequently attended a three-week training course on public administration in the United States. USIA also sent 10 Kazakstani Fulbright Scholars to the United States, as well as 34 Kazakstanis on programs in areas such as independent media, the rule of law, university administration and legislative systems. In addition, over 100 Kazakstanis participated in USIA academic exchange programs at the graduate, undergraduate, and high school levels.

Democracy Programs (see also Anti-Crime Training and Technical Assistance Program section in Part III)

- **NGO Development:** In FY 1996, our democracy programs in Kazakstan focused increasingly on the development of nongovernmental organizations (NGOs) as a way to help lay the basic foundations for a civil society. Dozens of small grants were provided by a range of USAID-funded organizations, including the Eurasia Foundation, ISAR, the American Legal Consortium, and the Counterpart Consortium. In June, USAID helped organized a major meeting in Almaty involving 40 NGOs, which in turn led to the establishment of a nationwide NGO coalition. As of the end of FY 1996, more than 300 local NGOs had participated in USAID-funded training activities.

- **Independent Media:** With the help of USAID grantee Internews, the number of independent television stations in Kazakhstan increased from 28 in 1995 to 47 in 1996. The percentage of independent stations carrying daily news coverage increased from 28 percent in 1994 to 44 percent in 1996. Eighteen of Kazakhstan's nineteen oblasts (regions) now have at least one independent media outlet.
- **Increased Citizen Participation:** The USAID-funded International Foundation for Election Systems (IFES) conducted a tracking poll to update last year's survey of voter attitudes. IFES will use the results of this poll to conduct targeted seminars promoting citizen participation, which will include NGOs, independent media, and government officials and will highlight issues of particular interest to voters.
- **Parliamentary Assistance:** Support for the new Kazakstani Parliament became an increasing area of focus for U.S. Government assistance towards the end of FY 1996. In FY 1997, USIA will bring a U.S. parliamentary specialist to Kazakhstan to work on legislative reform, and the National Democratic Institute (NDI), a USAID grantee, will bring a specialist to Kazakhstan to work with the parliament's press office.
- **"Democracy Funds" Small Grants Program:** An embassy-based Democracy Fund managed by USIA awarded three grants, one in the area of civic education, a second promoting media support for the development of farm associations, and a third to help start a weekly economic newspaper aimed at a wide audience.

Energy and Environmental Programs: The U.S. Government provided advisors to help overcome legal and regulatory constraints to oil and gas exploration and development in Kazakhstan. The U.S. Government has been asked to help develop an Aral Sea oil and gas consortium, a move that could have a major positive impact on the region's environmental problems. Implementation of the Aral Sea Initiative proceeded in FY 1996 and will continue through FY 1997, fulfilling Vice President Gore's commitment to provide potable water to some of the most affected areas in the region. U.S. Government assistance has been geared towards finding long-term solutions through increased regional cooperation. USAID was instrumental in facilitating the signing of regional water and power agreements by Kazakhstan, Kyrgyzstan and Uzbekistan—an important step towards the goal of increased cooperation. Under its Central Asian Regional Energy Initiative, USAID-funded consultants helped promote Caspian Sea mineral exploration by private investors. Monthly U.S. Government-sponsored meetings with Kazakstani energy-sector representatives helped identify impediments to investment. USAID's efforts to support power-sector restructuring included the organizing of study tours for senior Kazakstani energy-sector officials to the United States, the United Kingdom and Ukraine which facilitated the privatization of over 50 percent of the sector, which was opened to foreign investors, resulting in the sale of Kazakhstan's largest power plant to a U.S. company. USAID assistance also contributed to the establishment of an independent regulatory agency, which will be able to use pricing mechanisms recommended by a USAID-funded tariff study.

U.S. Nuclear Regulatory Commission (NRC): In FY 1996, the NRC began efforts to strengthen the Atomic Energy Agency of the Republic of Kazakhstan (AEARK), with the goal of helping the AEARK (with which the NRC has signed a cooperative agreement) develop its nuclear regulatory and oversight capability, consistent with the U.S./G-7 policy priority of addressing safety concerns associated with Soviet-designed reactors. The NRC provided training in the areas of power- and research-reactor training to approximately 15 Kazak participants. In FY 1997, NRC plans to provide additional training in inspection techniques for research and power reactors, as well as in emergency planning and preparedness.

Health Programs: The USAID-funded hospital partnership between Almaty and Tucson had a notable impact in FY 1996, including the extension of an innovative baccalaureate program in nursing to 11 colleges throughout Kazakhstan, and the opening of a toxicology center at a hospital in Almaty. USAID also continued to promote pharmacy privatization—specifically, the privatization of Kazakhstan's previously state-owned and -operated Farmatsiya pharmaceutical procurement and distribution entity—as a means of dramatically improving the availability of medical supplies. By the end of FY 1996, of the 1,325 pharmacies belonging to Farmatsiya, 611 had been auctioned off and 562 had been privatized. More importantly, state control of wholesale pharmaceutical sales had declined from three-fourths to less than

one-fourth. USAID also provided procurement, business- and operations-management assistance to the newly-formed retail pharmacies.

Housing Programs: In FY 1996, USAID's Housing Sector Reform Program (HSRP) helped spark a national trend of forming condominium associations to manage privatized apartment buildings. As of the end of FY 1996, the number of housing cooperatives in Kazakhstan totaled 1,300 (twice as many as the previous year) and was increasing by 200 every month. USAID-funded advisors facilitated the formation of several regional NGOs dedicated to supporting condominium associations. Cooperatives were publicized almost daily in the press, as well as on radio and television programs which featured HSRP-funded materials and interviews with HSRP consultants.

Security Programs: Under the Defense Department's Cooperative Threat Reduction (CTR or Nunn-Lugar) Program, work continued in FY 1996 on the closure of nuclear testing tunnels at Degelen Mountain, the dismantlement of missile silos, and the provision of automation and export-control equipment. In June, the Special Coordinator for Cooperative Threat Reduction visited Almaty to sign amendments to existing agreements that made an additional \$23.5 million in CTR funding available to Kazakhstan. In July, an interagency team headed by a representative from the Defense Special Weapons Agency visited Stepnogorsk, a former biological weapons (BW) facility, to discuss first steps on elimination of BW infrastructure and redirecting the work of its scientists. Also in July, the first of the four CTR industrial partnerships being set up was established in Byelkamt; followed in September by the establishment of a second partnership in Kurchatov. In August, six patrol boats provided by the U.S. Government under the CTR Program were delivered to the Kazakstani Navy for use on the Caspian Sea for export-control purposes. Additional U.S. security-related assistance was provided to Kazakhstan through programs such as the International Science and Technology Center (ISTC) and the Material Protection Control and Accounting (MPC&A) programs.

Peace Corps: A new class of 43 volunteers began their service in August, bringing the Peace Corps' total in-country presence in Kazakhstan to 94 volunteers. Of these 94 volunteers, 24 were working on environmental programs, 20 were working on business development activities, and 50 were teaching English as a foreign language. Peace Corps volunteers worked closely with USDA, USAID and other U.S. Government assistance providers in Kazakhstan to promote common objectives. The Peace Corps' environmental projects focused on parks and wildlife, as well as on health sanitation. The Peace Corps' focus for FY 1997 will be to stabilize its new environmental health program and diversify its current business development and business education programs.

FY 1997 Programs: In FY 1997, U.S. Government assistance to Kazakhstan will continue to have a greater emphasis on trade and investment, as well as on legal and regulatory reform. USAID will shift more of its training resources towards in-country and third-country training, in order to expose Kazakstani policy-makers to more directly relevant "success stories" from Eastern Europe and the NIS. As new laws and regulations are introduced in Kazakhstan, administrative skills and knowledge to implement these laws and regulations will become even more important, resulting in an increased need for technical assistance and training.

KYRGYZSTAN

In FY 1996, the U.S. Government provided approximately \$54.5 million in assistance to Kyrgyzstan, roughly the same amount as in FY 1995. This includes appropriated funds, as well as \$4 million in donated humanitarian goods transported by the U.S. Government. Humanitarian food assistance accounted for the bulk of U.S. Government assistance to Kyrgyzstan in FY 1996. The U.S. Department of Agriculture (USDA) provided \$15 million worth of wheat to the Government of Kyrgyzstan and another \$15 million in commodities to U.S. private voluntary organizations (PVOs) for humanitarian programs. USAID programs provided \$16.5 million worth of technical assistance, with an additional \$4 million in technical assistance provided by the Peace Corps, Department of Defense, Department of Commerce, USIA and the Department of State. Another \$4 million was allocated to the Central Asian - American Enterprise Fund (CAAEF) in support of investments in Kyrgyzstan.

Political and Economic Overview: The political situation in Kyrgyzstan was quiet during the latter half of FY 1996. The Kyrgyzstani Parliament settled down to work and passed major legislation, including the first part of a civil code. Some significant leadership changes took place at the local government level: most notably, former deputy prime minister Muraliyev—a well-thought-of technocrat—was put in charge of Osh Oblast (Region), which was lagging behind other parts of the country in terms of economic improvement. Judicial reform also continued in FY 1996. On the economic front, the USAID-supported mass privatization program was completed, with the Kyrgyzstani Government continuing the privatization of key sectors of the country's economy. Other ongoing economic reforms emphasized the creation and/or improvement of market-based institutions. Initiatives under way in FY 1996 included banking-sector reform, property registration, and the adoption of international accounting standards. Both industrial and agricultural production increased from last year's levels, as did the volume of trade, especially imports from non-NIS countries. Along with a resumption of growth came increased public acceptance of economic reforms.

USAID Private-Sector Reform Programs: In FY 1996, closely coordinated and complementary programs promoted institution-building in Kyrgyzstan in the areas of fiscal and tax reform, bank management, capital-market development, local financial management, accounting standards, trade and investment promotion, commercial law drafting and training, property-market development, agricultural reform, private-sector support, bankruptcy and restructuring, credit provision and energy regulation. USAID-funded assistance for Kazakhstan's mass privatization program (MPP) ended this past summer, when responsibility for the program was turned over to the Kyrgyz State Property Fund, and the corresponding public education project ended in late 1996. Under the MPP, 950 Kyrgyzstani enterprises were put through coupon auctions, resulting in the full divestment of over 600 of these enterprises. Upon completion of this process, the State Property Fund intends to send a small percentage of shares from Kyrgyzstan's strategic enterprise sectors (energy and telecommunications) through coupon auctions, giving Kyrgyz citizens the opportunity to own a small portion of the country's most valued assets. USAID technical assistance continued to shift towards creating a favorable environment for private-sector growth in Kyrgyzstan. Most USAID projects in this area saw significant successes; for example, the USAID-supported Kyrgyz Stock Exchange now lists 21 companies. In addition, USAID's fiscal reform team helped draft Kyrgyzstan's new tax code, as well as draft legislation and edicts in mortgage law, accounting, energy regulation, and other key areas. USAID also funded the training of Kyrgyzstani judges and lawyers in the new civil code and procedures, and assisted the Government of Kyrgyzstan in the process of acceding to the World Trade Organization. The development of small village banks continued to expand in the Bishkek and Osh regions under a USAID-funded micro-enterprise program. The project, which is being implemented by the Foundation for International Community Assistance (FINCA) has established 260 village banks serving 3500 members, has achieved a loan repayment rate of over 95 percent, and has made more than 75 percent of its loans to women.

USAID Democracy Programs: In FY 1996, the focus of USAID's democracy programs in Kyrgyzstan shifted from promoting governmental reform to developing support centers for nongovernmental organizations (NGOs). An active NGO community is developing in Kyrgyzstan and is gradually increasing its institutional capacity; this past year, an umbrella group of Kyrgyzstani NGOs began drafting an NGO law. The USAID-funded International Foundation for Election Systems (IFES) offered workshops to NGOs on how to influence government policy. The USAID-funded National Democratic Institute (NDI) relocated its regional office from Almaty, Kazakhstan to the capital of Kyrgyzstan, Bishkek, and worked with the Kyrgyzstani Parliament on improving constituent relations. The American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI) helped develop a local bar association, which started a law library and sponsored public hearings on draft legislation at the request of the parliament.

- **Municipal Finance and Management (MFM) Program:** Assistance provided to the City of Karakol on the development of model city charters and improved administrative procedures by the USAID-funded Research Triangle Institute (RTI) was so successful that President Akayev declared it a model for the rest of the country and urged USAID to replicate this pilot program in other cities. RTI also helped the Presidential Committee on Local Government formulate new legislation to increase decentralization.

Health and Humanitarian Programs: In FY 1996, USAID's health-care reform programs were quite active in Kyrgyzstan. A USAID-funded pilot project to create family medical practices worked so well in

Karakol that the project is being expanded to Osh. USAID-funded infectious disease control programs focused on respiratory diseases, which account for over 40 percent of child deaths in Kyrgyzstan. In addition, a \$100,000 U.S. Government contribution to a UNICEF-administered winter emergency fund helped meet the critical needs of Kyrgyzstan's children and pensioners. With the help of USAID's ZdravReform Health-Care Reform Program, 28 family group practices were operational and 53 additional practices were being formed in Issyk-Kul, USAID's integrated health-reform demonstration site, to serve the entire oblast's (region's) population. During FY 1996, a USAID-supported Consumer Choice Campaign was held in Issyk-Kul, enabling citizens to select a family physician for the first time ever. The campaign, which was launched by the Karakol Marketing Group with USAID assistance, raised community awareness about the importance of preventive family medicine and explained the unfamiliar concept of choosing one's own physician. As a result of the campaign, over 86 percent of the residents of the Karakol and Tyup rayons (counties) voluntarily enrolled in the newly formed family group practices.

USAID Housing Sector Reform Program (HSRP): HSRP sponsored a national conference on land auctions, and provided technical assistance on conducting such auctions to seven cities, three of which held land auctions in FY 1996. Under HSRP, the USAID-funded International City/County Management Association (ICMA) helped several cities auction off unused plots of land. ICMA was also instrumental in getting the U.S. private voluntary organization Habitat for Humanity to begin working in Kyrgyzstan.

Training and Exchange Programs

- **USIA Exchange Programs:** USIA sent 21 Kyrgyzstanis to the United States under its International Visitor (IV) Program, including 12 prosecutors; seven Kyrgyzstanis attended seminars or participated in voluntary visitor programs; another seven Kyrgyzstanis received long-term training in the United States through USIA fellowships; and seven U.S. academics came to Kyrgyzstan as specialists or Fulbright Scholars. USIA helped organize five seminars for English teachers and provided materials for English teachers throughout the country. USIA also continued to fund university-level and high school exchange programs, UNESCO media training centers, and Internet access for students and educators. According to our embassy in Kyrgyzstan, in FY 1996, USIA programs strongly supported the objectives of U.S. Government assistance in the area of democracy-building, through democracy-related programs, media training, and programs in English language and business training, the demand for which is growing steadily.
- **Peace Corps:** At the repeated request of President Akayev, the Peace Corps initiated a pilot program in business development, which began with the arrival of seven business volunteers this past summer. An additional 65 volunteers were teaching English, bringing the total number of Peace Corps volunteers in Kyrgyzstan to 72, of whom 37 began their service in August 1996. In October, the Peace Corps held a regional training seminar on community content-based Instruction for host-country nationals and Peace Corps' regional staff. The Peace Corps continued to be very popular with the people of Kyrgyzstan in FY 1996, creating an enormous amount of good will towards the United States. Several former Peace Corps volunteers were putting their language skills, contacts and country knowledge to use by working for U.S. NGOs that were implementing programs in Kyrgyzstan. In FY 1997, the Peace Corps will work on creating a strong foundation for its business development program in Kyrgyzstan.
- **USAID NET Project/USDA Cochran/USDOC SABIT:** USAID's NIS Exchanges and Training (NET) Project trained 129 Kyrgyzstanis in FY 1996, bringing the cumulative total to 619. Ten Kyrgyzstanis received agricultural training in the United States under USDA's Cochran Fellowship Program. Eight Kyrgyzstanis participated in the Commerce Department's Special American Business Internship Training (SABIT) Program.

Democracy Fund Small-Grants Program: In FY 1996, the embassy-based, USIA-administered Democracy Fund awarded 15 grants totaling \$69,000 in support of such programs as civil rights seminars, law library acquisitions, television equipment, and public information publications and seminars.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA donated approximately 55,000 metric tons of wheat valued at \$15 million to the Government of Kyrgyzstan under a P.L. 480 Title I-funded Food for Progress agreement, helping the Kyrgyzstani Government fill a drought-related food shortfall, mostly in the country's mountainous areas. Under the terms of the agreement, the Kyrgyzstani Government agreed to continue supporting the privatization of large stores, and to support agribusiness privatization by providing the wheat to private-sector bakeries. In addition, the U.S. Government worked with UNICEF to help fund iron supplements and fortification equipment for use in the milling process. In FY 1996, USDA also signed four Food for Progress agreements with U.S. private voluntary organizations (PVOs) for the delivery of up to 15,000 metric tons in humanitarian commodities valued at up to \$15 million for distribution and/or monetization in support of humanitarian projects in Kyrgyzstan. Agricultural Cooperative Development International (ACDI) is monetizing 7,000 metric tons of wheat and will use the proceeds to support agricultural credit projects with a farmers' union in Osh. The American International Association (AIA) of the Hematologists of the World for Children, Inc., is implementing a direct feeding program under which it will distribute 2,000 metric tons of commodities for infants and children currently being treated by AIA in medical facilities throughout Kyrgyzstan. The American Red Cross is implementing a direct feeding program under which it will distribute 1,500 metric tons of commodities to the elderly and displaced, and victims of landslides or floods this past spring. In addition to monetizing 1,000 metric tons of vegetable oil and using the proceeds for small-business initiatives and rural credit projects, Mercy Corps International is directly distributing 3,000 metric tons of rice and vegetable oil to hospitals, orphanages, nurseries and homes for the elderly. These commodities provided a vital social safety net for vulnerable groups; up to 70 percent of Kyrgyzstan's population currently lives below the poverty line.

Military Assistance: The Montana National Guard set up a partnership program with Kyrgyzstan, sending a delegation and hosting a return delegation of seven Kyrgyzstanis. Under the Partnership for Peace (PFP) and Warsaw Initiative, Kyrgyzstan participated in the joint exercise "Cooperative Osprey." Twelve Kyrgyzstani officers attended Defense Department training courses in military justice and English as a foreign language. Eight Kyrgyzstanis attended courses at the Defense Department's Marshall Center in Germany, which also hosted a regional conference in Bishkek on civil-military relations. In addition, Defense Department personnel carried out 5 briefing visits and seminars in Kyrgyzstan.

Anti-Crime Training and Technical Assistance (ACTTA) Program: The State Department's ACTTA Program was extremely active in Kyrgyzstan in FY 1996: ACTTA trained 253 Kyrgyzstani law enforcement officers through 12 different programs which took place in the United States, Kyrgyzstan and third countries, focusing on narcotics trafficking, organized crime and white-collar crime. ACTTA also provided \$50,000 to buy basic equipment, and plans were made to provide laboratory and photographic equipment directly. (see also ACTTA section in Part III)

USAID Electric-Power Sector Reform Programs: USAID-funded advisors helped strengthen the legal and institutional framework of Kyrgyzstan's electric-power sector by helping to develop the institutional capacity of the country's newly appointed independent regulators, and by facilitating the passage of a critical law on energy, which was a condition for receiving \$90 million in loans from the World Bank and the Asian Development Bank. Work was also under way on restructuring alternatives for Kyrgyzstan's state power monopoly geared towards attracting foreign capital, and on the development of small and large-scale hydroelectric projects by private investors.

FY 1997 Assistance Programs: In FY 1997, Kyrgyzstan's need for humanitarian food assistance is expected to decrease, due to an improved grain harvest. U.S. Government humanitarian assistance will shift from food support to more targeted assistance through U.S. support of private initiatives, including \$5 million in pharmaceuticals to be delivered by Heart to Heart, as well as Defense Department-supplied humanitarian food rations. The U.S. Government will continue to offer assistance in the areas of market transition, health reform, and civil-society development, and will seek to facilitate the resolution of regional energy and water issues. A number of USAID pilot projects will be expanded nationwide with development bank support, including a World Bank health project. Peace Corps is considering placing environmental volunteers in Kyrgyzstan. The overall FY 1997 assistance program will benefit from closer coordination between the U.S. Government and the Government of Kyrgyzstan.

MOLDOVA

In FY 1996, the U.S. Government provided \$29.4 million in assistance to Moldova. (This includes appropriated funds, as well as \$8.0 million in donated humanitarian goods transported by the U.S. Government.) Technical assistance accounted for 95 percent of total U.S. Government assistance to Moldova, while humanitarian assistance accounted for 5 percent. In addition, Moldova received a \$15 million PL-480 Title I loan from the U.S. Department of Agriculture for the purchase of U.S. agricultural commodities. U.S. Government programs in Moldova continued to be interactive and mutually supportive in FY 1996, focusing on the following five areas: (1) post-mass privatization, including the continued transfer of medium- and large-sized state-owned assets to the private sector, and land privatization, including the breakup of former collective farms into viable privatized units; (2) increasing the soundness of fiscal policies and fiscal management practices, and helping to create a market-oriented tax system that encourages compliance; (3) accelerating the development of private enterprises, improving the ability of Moldovan entrepreneurs to apply market-driven business skills, and creating a legal, regulatory and political environment conducive to sustained growth of enterprises (with the help of the Peace Corps' activities emphasizing small and medium-sized business promotion and the development of nongovernmental organizations); (4) creating a more competitive and market-responsive private financial sector; and (5) helping to develop a more economically sustainable and environmentally sound gas and electric sector.

Political Overview: During the latter half of FY 1996, the political scene in Moldova was dominated by preparations for the November presidential elections. All three major candidates were well aware of Moldova's need to attract Western investment and the country's current financial dependency on foreign donors, and all three candidates supported the transformation of Moldova's economy to a market basis. However, the presidential elections diverted a noticeable amount of interest and energies away from the Moldovan Government's ongoing restructuring efforts, and frustrated the development of a coherent strategy to resolve the conflict with the breakaway region of Transnistria. The persistence of this conflict may serve as a disincentive for Western investment in Moldova.

Economic Overview: Thanks to Moldova's effective economic reform program, the economic decline of the last five years appeared to have slowed consistently during the latter half of FY 1996, and officials were projecting an overall increase in production that could translate into positive GDP growth for 1996. Moldova's official external debt (excluding its energy debt) equals 30 percent of GDP, and Moldovan authorities affirmed that Moldova was honoring all of its external obligations and had no overdue loan repayments or unpaid interest charges. Despite some reorientation toward the West, Moldova's economy remained dependent on that of Russia for export markets and energy imports. Both exports (at a volume of \$894 million) and imports (at a volume of \$991 million) increased about 20 percent in 1996 over 1995, with the share of exports to the European Union holding steady, the share to Russia increasing, and the share to other NIS countries and Romania decreasing. As of the end of FY 1996, Europe was providing about 13 percent of Moldova's imports.

Trade and Investment Programs: In FY 1996, the primary emphases of the U.S. Government's trade and investment programs in Moldova included the development of an agricultural products' export information system in the print and broadcast media, and the de-monopolization of the country's transportation sector to encourage investment and domestic/inter-regional trading. A third major emphasis was initiated in late FY 1996, namely support for Moldova's accession to the World Trade Organization (WTO), although results in this area were mixed. With the help of USAID, a solid foundation in promoting trade in agricultural products was established, with the print and broadcast media providing prices and locations of availability for 36 fruits and vegetables in 23 cities in the region. This particular USAID project is being replicated by TACIS, the European Union's technical assistance organization, in an expanded three-year effort. The results of U.S. Government investment-promotion efforts were mixed; for example, local cooperative member-owners of a dairy voted against the entrance of foreign investors who were otherwise ready to invest in the Moldovan enterprise.

Economic Restructuring Programs: In FY 1996, USAID's economic restructuring program in Moldova exceeded many of the results initially expected during the program's planning phase. Moldova is one of the few NIS countries which has completed its mass privatization program; established a domestic capital market (including a stock exchange, broker/dealer network, share registries and regulatory environment);

implemented monetary and fiscal reform, thanks to the Moldovan Parliament's continued successful use of an organic budget system developed by U.S. Treasury Department advisors; and totally revamped its income tax system, having placed a new income tax law before parliament. Even more significant for this primarily agricultural country is the fact that with the support of USAID, Moldova launched a program to break up its former collective farms into truly privatized, economically rational units.

- **USAID Support for Mass Privatization:** In November 1995, Moldova completed its mass privatization program, which resulted in the privatization of 1,140 medium- and large-sized enterprises, 732 shops and 364 health-care and other entities, representing 60 percent of the non-agricultural sector of Moldova's economy. The program achieved a remarkable public participation rate of 95 percent of all eligible Moldovans. In late 1996 and early 1997, approximately 100 remaining enterprises which were not able to participate in the mass privatization program will be privatized through cash auctions. The most successful U.S. Government contribution in this sector came from a USAID-funded pilot project in Nisporeni involving the restructuring of an agricultural association into privatized units. Unanimous appreciation from the Moldovan Government, other donors and—most importantly—the farmers themselves led the Moldovan Government to request that USAID replicate this program in each of the country's 35 regions.
- **Support for Land Privatization and Farm Restructuring:** As a result of a well-coordinated effort between USAID and other, multilateral donors, Moldova was at the forefront of land privatization in FY 1996. A June 1996 memorandum of understanding entered into by the Government of Moldova, the World Bank, USAID, and TACIS (the European Union's technical assistance organization for the NIS) highlighted Moldova's commitment to establishing a market-oriented real estate sector, including the implementation of enterprise-land privatization, the restructuring of agricultural collective enterprises, and the privatizing of rural land. Another USAID-funded pilot program made it possible for privatized enterprises to purchase the title to the land on they are located, thus allowing them to use this land as collateral or capital. A USAID-funded collective farm restructuring initiative produced quite remarkable results. This pilot program involved the successful dismantling of a collective farm with some 3,000 members, at which point private titles for plots of land were issued to the individual farmers. As the most successful land-privatization activity in the NIS to date, this activity is being expanded to restructure some 70 to 75 additional collective farms in FY 1997.

Business and Economic Development Programs: The main objectives of the U.S. Government's programs in this category in FY 1996 were to help prepare a regulatory environment conducive to entrepreneurial investment and reasonable risk-taking, and to encourage the establishment of linkages between U.S. and Moldovan businesses. USAID-funded advisors worked closely with members of the Moldovan Parliament to draft and comment on key economic legislation, including a budget law and a banking law. In addition, members of the Parliament's Budget and Finance Committee participated in a U.S. study tour to meet with their U.S. counterparts from congressional committees, the Congressional Budget Office, and other government agencies. In addition, the exposure of 16 Moldovan entrepreneurs to business practices in the United States under the Commerce Department's Special American Business Internship Training (SABIT) Program was quite effective and complemented the management-skills training and technology transfer occurring through the 11 business service centers (BSCs) sponsored in Moldova by the Peace Corps, the Eurasia Foundation and USAID. (see also USDA Emerging Markets Program)

- **USAID Support for EBRD Micro-Lending Program:** In collaboration with the European Bank for Reconstruction and Development (EBRD), USAID provided technical assistance for a micro-lending program in Moldova. Four Moldovan banks were selected to provide credit to micro-enterprises and to receive computerized tracking and monitoring systems. The banks will issue loans in amounts up to \$20,000 micro-enterprises for working capital, equipment purchases and investments. While funding for this activity was provided by the EBRD and a Swiss donor, USAID provided technical assistance in the form of short-term credit advisors with experience in micro-enterprise loan administration and in management and information systems. USAID also provided computer hardware and software, and will provide training to up to 24 Moldovan bankers in credit analysis, loan administration, accounting and loan documentation, through a USAID-supported Bank Training Institute. USAID is also helping establish the operational infrastructure for micro-lending. Funding from other donors will be used to support banker-training centers and business-training centers to complement this assistance.

- USAID Accounting Infrastructure Reform Programs:** USAID-funded advisors helped accelerate the pace of reform of Moldova's bank accounting infrastructure by finalizing and implementing a chart of accounts, introducing related operating policies and procedures, and developing financial statements for regulatory reporting and management information that comply with international accounting standards (IAS). USAID assistance succeeded in winning the respect and full support of the management of the National Bank of Moldova for this type of reform. Bank officials took a series of incremental steps and achieved substantial results: select Moldovan commercial banks began producing trial balances in a format that resulted in the production of their first financial statements in compliance with IAS. An IAS-compatible chart of accounts was developed, approved and implemented, along with training courses and curriculum development in using the new chart. The impact of this USAID-funded assistance was maximized with the help of close coordination with the donor community and Moldovan Government entities, including the International Monetary Fund (IMF), the World Bank, and the National Bank of Moldova.

Training and Exchange Programs: The overriding objective of U.S. Government training and exchange programs in Moldova has been to provide participants with exposure to democratic and market-oriented ideas while enhancing individual technical and professional capacities. During FY 1996, USAID sent 48 Moldovan participants to the United States for short- or long-term training in public administration, law enforcement and marketing, while USIA sponsored 126 Moldovans under its high-school, undergraduate, graduate and faculty exchange programs. Our embassy in Moldova feels strongly that market-oriented training has been one of the most effective types of U.S. Government assistance to Moldova. FY 1996 also saw the introduction of a new community-based USIA exchange program called Community Connections, which is aimed at establishing linkages between entrepreneurs and local government officials from Moldova and their U.S. counterparts.

Peace Corps: At the end of FY 1996, 62 Peace Corps volunteers were successfully working in Moldova at the grassroots level, helping implement a nationwide USAID program in agricultural land privatization, helping five NGOs increase their organizational capacity, and promoting the development of small and medium-sized enterprises (SMEs) through eight SME business service centers. Peace Corps volunteers also taught English at the high school level, laying the foundations for long-term cross-cultural linkages. In late FY 1996, 43 new Peace Corps volunteers were sworn-in after completing 12 weeks of training. This was the fourth group of Peace Corps volunteers to begin service in Moldova since the start of the Peace Corps' program there in 1993. The pre-service training included a village immersion week during which volunteers lived with families in a typical Moldovan village. Some of the volunteers in this group will be working to educate Moldovan communities about their opportunities under the country's new land-privatization programs.

Democracy Programs: In FY 1996, the objectives of the USAID-funded programs implemented by the International Foundation for Election Systems (IFES) and the American Bar Association's Central and East European Law Initiative (ABA/CEELI) included the promotion of citizen participation in political and economic decision-making, and support for the development of the legal profession and the judiciary. ABA/CEELI effectively helped Moldovan lawyers establish a law center that is now accumulating a law library, has established Moldova's first-ever professional journal for attorneys, has established a judicial training program with the goal of retraining all of the country's judges over the next two years, and is intended to become self-sustaining.

Energy Programs: The energy sector continued to be Moldova's area of greatest concern in FY 1996, due to the fact that it continued to be almost entirely dependent on imported fuel. All heating- and power-production facilities remained state-controlled and had no corporate planning, finance, marketing or customer-service departments. The primary objectives of U.S. Government assistance in the energy sector were to introduce modern financial and administrative practices, and to demonstrate new technologies for increasing energy efficiency. USAID-funded technical assistance initiated in late FY 1996 focused on auditing the efficiency levels in heating- and power-production units, as well as identifying and facilitating the implementation of necessary reforms. This auditing assistance also served the purpose of demonstrating U.S. equipment, thus opening the door to potential U.S. exports and trade.

Environmental Programs: In FY 1996, USAID's Environmental Policy and Technology Project established environmental risk analysis courses at several universities and demonstrated the usefulness of fuel-efficient low-till agricultural equipment in several different regions of Moldova. The risk analysis materials, which will enable Moldovans to concentrate their limited resources on addressing the most serious public-health risks from agricultural activities, were incorporated into courses at several major legal, medical, agricultural and general universities. The low-till equipment, which was contributed by USAID as part of a project to introduce advanced, environmentally sound farming techniques to Moldova's agricultural sector, is helping Moldovan farmers combat widespread soil erosion and overcome the health risks of surface and ground water contamination resulting from the overuse of agricultural chemicals. In FY 1996, USAID's efforts contributed to significant reductions in soil erosion, increased efficiency in agrochemical usage, and improved potable-water quality.

Health-Sector Programs: A USAID-funded Chisinau-Minneapolis hospital partnership addressed the training of trauma-care providers, complications from inappropriate treatment of patients, and infection from cardiovascular surgery. In late FY 1996, the partnership expanded its focus to include women's comprehensive health care. The partnership program's success is well-known and appreciated in Moldova: it has resulted in a decrease in cardiovascular post-operative mortality rates from thirty to one percent, as well as a decrease in the overall post-operative infection rate from fifteen to eight percent.

Humanitarian Assistance: The USAID-funded Counterpart Consortium worked through local Moldovan nongovernmental organizations (NGOs) to address the needs of orphans and pensioners, and provided medical equipment and supplies to municipal hospitals and regional clinics. In addition to benefiting the needy, the process through which this equipment and supplies were distributed was designed to enhance the management capacity of Moldovan NGOs, as well as the ability of members of the medical profession to organize themselves into a medical foundation for the purpose of transparently distributing medical equipment. In FY 1996, Counterpart distributed \$1.5 million in excess property provided by the U.S. Department of Defense, bringing the cumulative value of such deliveries since 1994 to \$4.2 million.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA provided 35,000 metric tons of wheat and 15,000 metric tons of rice under a \$15 million P.L. 480, Title I-funded government-to-government program. The Moldovan Government will use the revenues generated from the sale of these commodities to develop the country's private sector and to invest in the revitalization of the agricultural sector, including farming, agribusiness and agricultural processing industries; particular emphasis will be placed on revitalizing the distribution and marketing of agricultural commodities. Under its Food for Progress program, USDA provided 3,150 metric tons of commodities to be distributed by two U.S. private voluntary organizations (PVOs): Lishkas Ezras Achim (2,000 metric tons) and the International Partnership for Human Development (1,150 metric tons). Lishkas Ezras Achim directly distributed wheat flour, rice and vegetable oil to approximately 766,000 individuals suffering due to Moldova's declining economic situation, including school children, the elderly, sick people and the disabled. The International Partnership for Human Development directly distributed 800 metric tons of commodities to approximately 7,000 families and monetized 350 metric tons of vegetable oil, using the proceeds to support a nutritional and health educational program, a medical supply program, a nurse training program, boarding schools for handicapped children, orphanages and hospitals.

Eurasia Foundation: In FY 1996, the objectives of the Eurasia Foundation's grantmaking programs in Moldova were (1) to reach a wide range of NGOs quickly with targeted assistance, and (2) to increase the number and diversity of NGOs receiving U.S. Government assistance. The Eurasia Foundation continued to leverage other resources to supplement its USAID funding, and was able to provide 14 grants totaling approximately \$200,000 in support of technical assistance, training and policy reform programs. The Eurasia Foundation's grantmaking programs are well-known and respected in Moldova, where each program receives a large number of high-quality proposals.

West NIS Enterprise Fund (WNISEF): In FY 1996, the WNISEF focused on promoting the creation and enlargement of medium- to large-sized private enterprises in Moldova, so as to demonstrate the potential for investment in the country.

FY 1997 Assistance Programs: In FY 1997, USAID will make significant changes in its programs for Moldova in the following four areas: agricultural land privatization, trade and investment promotion, democracy and governance, and energy efficiency. At the request of the Moldovan Government, USAID's successful farm-privatization pilot program will be replicated with 70 farm associations throughout Moldova. In the area of trade and investment, U.S. Government assistance will be targeted at helping prepare Moldova for accession to the World Trade Organization (WTO), and at persuading the Moldovan Government into fully privatizing the marketing of agricultural inputs and outputs. USAID's democracy and governance programs will expand into two new areas: developing the professional expertise of Moldova's independent print and broadcast media, and providing technical assistance to leverage a \$20 million World Bank loan for infrastructure projects at the village and town levels. Pending the availability of funding, USAID will also identify and address Moldova's energy-sector problems, and will push for the development of an official Moldovan Government strategy for privatizing and commercializing the country's energy production and consumption.

RUSSIA

In FY 1996, the U.S. Government provided over \$348 million in assistance to Russia. (This includes appropriated funds, as well as \$46 million in donated humanitarian goods transported by the U.S. Government.)

Political Overview: During the latter half of FY 1996, political attention in Russia was focused first and foremost on the June-July presidential elections, and secondly on the health of President Yeltsin and the related issues of presidential succession and the transfer of power. The presidential elections were free, fair and competitive, although many observers concluded that President Yeltsin's use of presidential prerogatives to the maximum extent possible was at times excessive. Many of the Russian mass media, especially television, were openly partisan in their support of President Yeltsin's re-election. In the wake of President Yeltsin's electoral victory, Prime Minister Chernomyrdin easily won the approval of the Russian Duma (Parliament), and Anatoliy Chubays—long praised and maligned as a key democratic reformer—returned to government as head of the presidential administration.

In late August, then-Secretary of Russia's National Security Council Aleksandr Lebed concluded a peace agreement with the Chechen separatists which was welcomed by the Russian people as a whole, although many leading politicians raised concerns about its implications for Russia's territorial integrity. The agreement was approved by the Russian Government and President Yeltsin, and appeared to offer reasonable prospects of ending the war in Chechnya. However, President Yeltsin's illness and the public power struggles for possible presidential succession, highlighted by Lebed's dismissal, dominated Russian political life in September and October. Gubernatorial elections began in late September and were scheduled to continue through mid-January in those 52 regions of Russia which still had incumbent heads of administration who had been appointed by President Yeltsin rather than popularly elected. All in all, the Russian Government's slow and cautious approach to reform continued throughout FY 1996, and is likely to continue in FY 1997.

Economic Overview: Despite severe revenue shortfalls during the run-up to the June-July presidential elections, the Russian Government continued along the path of financial stabilization during the second half of FY 1996, meeting the monthly targets of the International Monetary Fund (IMF) stabilization program for Russia and even bringing monthly inflation down to a record low of zero percent in August. The new government under Prime Minister Chernomyrdin is leaner than its predecessor, but better equipped to address the next stage of economic challenges facing Russia, i.e., implementing structural reform, stimulating investment, and promoting trade.

Addressing Problems with the Delivery of Assistance: During the latter half of FY 1996, our embassy in Moscow continued to wrestle with local taxation and customs problems caused by poor coordination within the Russian Government; however, the results of our efforts were generally positive. In April, the Ministry of Finance instructed the state tax and customs authorities to suspend any efforts to collect taxes and customs duties on U.S. Government assistance, pending the passage of legislation intended to provide a permanent solution to this problem. Duma (Parliament) hearings on technical assistance and

related implementational problems were conducted in May. By the end of September, the prospects were good for extending the April arrangement and introducing corresponding draft legislation in the Duma.

Trade and Investment Programs: In FY 1996, the U.S. Commerce Department's wide-ranging programs provided assistance to more than 100,000 U.S., Russian, and NIS companies through program offices in the United States, Russia, and other NIS countries. Assistance provided through such Commerce Department programs as the Special American Business Internship Training (SABIT) Program, the Business Information Service for the NIS (BISNIS), and the American Business Centers (ABCs) included, but was not limited to business facilitation services provided to Russian and visiting U.S. firms, trade and investment information provided to large audiences in the United States and Russia, and valuable U.S.-based internships with U.S. companies for Russian managers.

- **U.S. Department of Commerce - SABIT, CABNIS Programs:** In FY 1996, the SABIT Program organized internships for 167 Russians, bringing the cumulative total of Russian participants to 588. As of the end of FY 1996, U.S. companies attributed over \$65 million in export revenues to U.S.-Russian business relationships forged by the SABIT Program, and more than 60 percent of these U.S. host companies reported ongoing ties with their former SABIT interns. Similarly, by the end of FY 1996, the Commerce Department's Consortia of American Businesses in the NIS (CABNIS) had helped create an additional \$11 million in U.S. exports by strengthening the commercial presence of U.S. firms in the NIS.
- **U.S. Department of Commerce - BISNIS/BISTA:** In FY 1996, Russian companies listed in the *BISNIS Search for Partners* publication established an average of five to seven contacts with U.S. firms. In more than one-fifth of the cases, these contacts led to serious negotiations. As of the end of FY 1996, there were five BISNIS representatives in Russia (two in Moscow; and one each in St. Petersburg, Vladivostok and Khabarovsk). During peak periods, BISNIS served more than 3,000 U.S. companies per week. The Business Information Service for Trade with America (BISTA), the Russian equivalent of BISNIS, formally opened in FY 1996 with the help of BISNIS.
- **USAID Agribusiness Partnership Program:** As of the end of FY 1996, some \$30 million in USAID funding under the Food Systems Restructuring Project had leveraged nearly \$150 million in private investment, including a \$20 million joint venture with the H.J. Heinz Company for the production of baby food, a joint venture with Ibberson International for the manufacturing of grain-processing equipment, and a joint venture with Ben and Jerry's for the production of ice cream. Unfortunately, these joint ventures experienced ongoing problems related to Russia's legal and regulatory environment which continued to be an obstacle to foreign investment in Russia.
- **U.S. Trade and Development Agency (TDA):** In FY 1996, TDA experienced a modest decrease in the number of new project proposals from Russian and U.S. companies, which can largely be attributed to the uncertainty caused by the Russian presidential elections. Despite this slowdown, TDA will continue to maintain an active program in Russia in FY 1997. Several of TDA's FY 1996 projects in Russia were related to environmental concerns, including a study on phasing-out the production of chlorofluorocarbons (CFCs), for which TDA obligated \$300,000, and a study on the co-production of non-asbestos brake shoes for trains, for which TDA is providing \$350,000. Both of these grant agreements were signed at the July meeting of the Gore-Chernomyrdin Commission (GCC).
- **U.S.-Russia Business Development Committee (BDC):** During the Sixth Session of the Gore-Chernomyrdin Commission in July, the U.S.-Russia BDC presented a final report on the joint U.S.-Russian commercial tax dialogue, offering proposals and recommendations for tax changes that would improve the climate for foreign investment and trade. These recommendations were developed during the course of a year-long dialogue involving the public and private sectors of both countries. The U.S.-Russian commercial tax dialogue has now entered a second phase, and is being conducted on two fronts. One part of the dialogue is focusing on Russia's draft tax code as it proceeds through the legislative process, as well as on administrative measures needed to rationalize the country's tax regime. This was the focus of the second Commercial Tax Roundtable held in Moscow in October 1996. A second part of the dialogue is focusing on practical measures and is being conducted through quarterly meetings of the U.S. Business-Russian Tax Service Working Group, in which U.S.

business representatives consult with Russian tax authorities to seek solutions to tax-implementation problems in areas such as value-added tax (VAT) refunds. In addition, new initiatives were launched in customs cooperation, combating crimes against businesses, small-business development, and inter-regional cooperation. (see also BDC section in Part III)

Oil and Gas Working Group: The U.S.-Russia BDC's Oil and Gas Working Group conducted parallel efforts addressing taxation of the oil and gas sectors, as well as a dialogue on production-sharing legislation leading up to the December 1995 passage of a law on production sharing. One of the major achievements of the Oil and Gas Working Group in FY 1996 was to help obtain a commitment by the Russian Government to reduce the excise tax for oil-industry joint ventures.

U.S. West Coast-Russian Far East Working Group: In FY 1996, the U.S.-Russia BDC's U.S. West Coast - Russian Far East Ad Hoc Working Group continued to promote Inter-regional cooperation. The Working Group's membership includes the governments and private sectors of five U.S. states and 11 Russian regions, as well as the U.S. and Russian federal governments. The BDCI Program supported the Working Group's steering committee meeting in Anchorage in March, and a second Working Group meeting in Khabarovsk in September. The Working Group developed a variety of recommendations and implemented several projects, most notably the CLEAR-PAC advance customs-notification pilot project, which is designed to speed Russian customs clearances of U.S. goods entering Russian ports, thus removing the single largest impediment to regional commerce. The Working Group also advocated the implementation of oil and gas projects on Sakhalin Island and worked with the American Chamber of Commerce in Russia, which prepared a white paper for the Working Group containing recommendations for expanding inter-regional commerce.

Market Access: Through the BDC mechanism, progress was also made in the area of market access, most notably the signing of a U.S.-Russian Joint Memorandum of Understanding on Aircraft Market Access in January 1996. These efforts focused on the lowering of tariff barriers, harmonization of standards and certification, and priority commercial projects.

Trade and Investment Missions, Reverse Missions and Conferences: The BDC Program partially funded a conference on defense converse in Yekaterinburg in spring 1996 sponsored by the Gore-Chernomyrdin Committee's Defense Conversion Committee. In addition, the U.S.-Russia BDC's Subgroup on Forest and Wood Products Machinery and Equipment inaugurated its activities with a highly successful reverse trade and investment mission which brought industry experts from the Russian Far East to the United States for meetings and site visits with businesses in the Pacific Northwest. Plans are being made for a reciprocal visit by representatives of U.S. companies to the Russian Far East. In July, the Microelectronics Subgroup of the U.S.-Russia BDC held its inaugural meeting in San Francisco, during which representatives from Semiconductor Equipment and Materials International and the Semiconductor Industry Association discussed market conditions in Russia with senior Russian Government and industry representatives.

Other Accomplishments: Other accomplishments of the U.S.-Russia BDC in FY 1996 included the following: consultations in Moscow by the U.S. Ombudsman for Energy and Commercial Cooperation with the NIS, which helped facilitate the Russian Government's decision not to embargo U.S. poultry exports to Russia, worth \$600 million annually; helping to facilitate Russian agreement to reconvene the bilateral U.S.-Russian Working Group on Intellectual Property Rights (IPR) to discuss improvements in Russian enforcement of IPR; and facilitating improvements in Russian tax treatment of U.S. companies, including the lowering of excise taxes on oil-industry joint ventures; the elimination of the tax on excess wages; the elimination of VAT on intercompany loans; the issuance of a decree implementing several recommendations in the Joint Report on the U.S.-Russian Commercial Tax Dialogue, including the modernization of depreciation schedules and expanded deductibility of business expenses; an agreement by the newly formed U.S.-Russian Working Group on Tax Implementation to allow companies to offset VAT payments on inputs with VAT payments by customers; and consultations with key Duma members encouraging the inclusion of business-friendly provisions in comprehensive tax legislation.

Peace Corps: In FY 1996, 75 new Peace Corps volunteers began their service in Peace Corps' two programs in Russia, one of which is based in Moscow and the other in Vladivostok. As of the end of FY 1996, there were 147 volunteers serving in Russia—an all-time high. The largest category of Peace Corps volunteers in Russia were teachers of English, with 90 volunteers teaching in over 35 secondary schools, universities, teacher training colleges and institutes (see Training and Exchange Programs section below). The Peace Corps' business development program, which was implemented by 35 volunteers, continued to offer business consultations in Western Russia, while shifting towards business education in Eastern Russia. In FY 1996, business development volunteers worked in 15 business centers, 6 city administrations, 6 institutes, 5 nongovernmental organizations (NGOs) and one business incubator (see Business Development Programs section below). In FY 1996, the Peace Corps' environmental program continued to grow in the Russian Far East, with 17 volunteers working in environmental education, reforestation and nature preserves, and the development of environmental NGOs (see Environmental Programs section below).

Business Development Programs

- **U.S. Department of Commerce - American Business Centers (ABCs):** Over the past two years, the Commerce Department's 13 ABCs located throughout Russia and the NIS served over 1,550 clients and collected approximately \$1 million in revenues for services rendered to U.S. and NIS firms. As the ABC Program unfolds, prospects for self-sustainability continue to improve. (see also U.S. Department of Commerce - Business Development Committees section in Part III)
- **USAID Business Development Programs:** USAID-funded American Russian Centers (ARCs) located throughout Russia provided training to over 8,000 Russians. As of the end of FY 1996, ARC consulting services had facilitated the creation of over 860 new businesses and over 4,000 new jobs, and had helped preserve over 4,000 existing businesses and over 40,000 existing jobs. The USAID-funded Business Collaboration Center (BCC) in Moscow provided over 6,000 person-hours of management and business training, as well as consultations to over 280 new entrepreneurs. The BCC also created a homepage on the World Wide Web which has been visited over 10,000 times since January 1996. As of the end of FY 1996, the USAID-funded Vozmozhnost (Opportunity) program implemented by Opportunity International in Nizhniy Novgorod had loaned more than \$1 million to small businesses since its establishment in 1994. The loan program, which had reached 690 entrepreneurs with loans ranging from \$300 to \$20,000, had maintained a repayment rate of 93 percent.
- **USIA Community Connections Program:** USIA's Community Connections Program (an expanded version of the former "Business for Russia" Program—see below) selected 190 entrepreneurs and 9 local government officials from five regions to travel to the United States for internships starting in October, bringing the cumulative total of participants in the Business for Russia/Community Connections Program to over 1,500. According to a report prepared by Russia's Federal Employment Service, 2,500 new jobs had been created as a direct result of these internships in 1995.
- **Peace Corps Business Development Assistance:** In FY 1996, Peace Corps business development volunteers in Western Russia organized 307 lectures, 73 seminars and seven conferences, and held 930 consultations. The volunteers helped 55 Russians qualify for business training in the United States and were instrumental in helping Russian small businesses secure over \$500,000 in small grants. The volunteers also continued to implement high-impact projects. A volunteer in Khabarovsk organized two NGO seminars, covering topics such as strategic planning, project design, technology of social partnership, fundraising, public relations and human resources. A volunteer on Sakhalin Island organized a medical resource center designed to provide the medical community with access to state-of-the-art medical information and methodologies. Peace Corps volunteers also organized two region-wide Junior Achievement seminars for primary and secondary school teachers in Primorskiy Kray. Volunteers in Nizhniy Novgorod and their Russian counterparts conducted a ten-day business planning symposium featuring special lectures to Russian Rotary Clubs and chambers of commerce. Meanwhile, another volunteer in Nizhniy Novgorod helped establish a Western-style outpatient alcoholism treatment center, arranged for staff training at the Recovery Center in Moscow, and secured furniture donations to the clinic. A volunteer in Vyksa co-facilitated a budgeting and cashflow analysis workshop for 25 small-business owners, and produced workbooks

on budgets, cash flow and the transition from Russian accounting classifications to Western-style classifications for use in preparing financial statements. A volunteer in Western Russia organized customer-service and marketing seminars, using such training venues as McDonald's, Kentucky Fried Chicken, Pizza Hut, and the Starlight Diner. An agribusiness volunteer in Voronezh compiled and printed a Russian-English agricultural handbook and dictionary for sale in Russia. A volunteer in Togliatti designed and conducted a print-advertising conference with the participation of over 70 newspaper editors, advertising agencies and magazine representatives. The same volunteer also helped attract Western firms to the Fourth Annual Inter-Volga International Business Conference, and set up a Togliatti homepage on the World-Wide Web, which provides information on the city's business climate, as well as on Peace Corps activities in Western Russia.

Economic Development Programs

USAID Commercial Law Drafting Program: Implemented by the Harvard Institute for International Development (HIID), USAID's Commercial Law Drafting Program provided significant contributions to the development of Russia's legal system in FY 1996. HIID advisors worked closely with Russia's Commission on Securities and Capital Markets (CSCM) to support its institutional development, paving the way for a substantial World Bank loan, which will provide additional support for the development of Russia's capital markets. A Law on Securities, passed by Russia's State Duma in March 1996 and signed by President Yeltsin in April 1996, firmly established the CSCM's role and gave legislative status to many securities market rules and procedures which had previously existed only in the form of presidential decrees. HIID advisors also took part in the drafting of laws and regulations as a follow-up to a decree issued by President Yeltsin calling for the protection of shareholders' and investors' rights through improved regulation and enforcement.

U.S. Department of Commerce - Commercial Law Development Program (CLDP): In FY 1996, the CLDP placed a new resident advisor on trade issues at Russia's Ministry of Foreign Economic Relations. Along with his predecessor, the advisor coordinated a series of short-term programs, both in Russia and the United States, involving U.S. Government and private-sector experts who consulted with over 200 Russian Government officials on the following trade issues: trade in financial services; the enforcement of intellectual property rights (with the U.S. Patent and Trademark Office), including border enforcement; government procurement; the impact of accession to the World Trade Organization (WTO) on Russia's economy; technical barriers to trade; measuring government support for agriculture; trade-data collection; and sanitary and phytosanitary standards (conducted by USDA). (see also Economic Development Programs section in Part III)

Tax Reform Programs: In FY 1996, U.S. Government assistance in the area of tax reform focused on the two major prerequisites for an improved foreign and domestic investment climate in Russia: a sound tax code and appropriate enforcement mechanisms. A comprehensive new tax code was drafted with significant input from USAID-funded advisors; however, as of the end of FY 1996, it had not been passed, due to differences of opinion between the executive and legislative branches. Nevertheless, drawing on provisions of the draft law, several presidential decrees ordering procedural changes were implemented over the past six months, including a decree switching accounting procedures from a cash basis to an accrual basis, one allowing local governments to implement property tax initiatives, and one on organizational changes at the State Tax Service. USAID facilitated the virtual redesign of the Novosibirsk Tax Inspectorate by sponsoring a senior-level U.S. Internal Revenue Service (IRS) official as a resident advisor to the territorial tax service, and USAID-funded tax advisors also worked at the regional level in Nizhniy Novgorod and Moscow. USAID-funded programs also helped strengthen Russia's tax system by providing training to tax inspectors at the federal and local levels, working with Russian Government entities on the drafting of tax laws, helping to reorganize Russia's state tax bodies along functional lines, and designing systems to predict tax revenues and expenditures. USAID-funded advisors developed revenue estimation models for use by the Ministry of Finance in forecasting receipts and analyzing the impact of alternative tax policies on revenues. In addition, USAID worked jointly with a resident U.S. Treasury Department tax administrator to improve the ability of Russia's State Tax Service to audit collection of arrears, educate taxpayers, and perform other important functions.

Private-Sector Development Programs: U.S. Government assistance continued to support the rapid evolution of Russia's private sector by providing assistance targeted at the federal, regional and local levels. A highly successful innovation introduced by USAID during the latter half of FY 1996 to help

Russian enterprises restructure themselves has been the so-called "toolkits"—a series of support materials which address the issues that a restructuring enterprise must typically face in Russia. The toolkits provide information on marketing, financial management and management support, and have met by enthusiastic responses from over 800 enterprises in seven regions of Russia. These ongoing activities will be expanded in order to serve as a base for future World Bank activities in this area.

USAID Land Privatization Programs: In the area of land reform, USAID-funded advisors helped Russian city officials develop local real estate information systems to support title registries that will rationalize and manage private-property ownership. As of the end of FY 1996, registration systems were fully operational in two cities. In order to encourage public support for land privatization, practical seminars, forums and conferences for both targeted audiences and the general public were held with USAID assistance in 12 cities, and were attended by more than 2,500 enterprise managers, 220 journalists, and 220 local government officials. USAID also supported agricultural land privatization seminars which were attended by a total of 124 journalists, 1,420 food-processing farm managers, and 89 local government officials.

- **USAID Housing Sector Reform Project (HSRP):** In FY 1996, the HSRP continued to provide technical assistance to a variety of projects related to real estate development and land privatization in Russia. Local property-tax reform pilot programs in Tver and Novgorod demonstrated market-based land valuation and complemented USAID's federal tax-reform activities. The development of commercial real estate mortgage procedures will allow banks to provide loans secured by land. USAID-funded land-use and zoning pilot programs in four cities also facilitated the growth of private enterprises, by enabling them to use privatized land.
- **USAID Enterprise Land Sales (ELS) Project:** The ELS Project expanded into 34 oblast (regional) capitals, and as of the end of FY 1996, there had been a total of 465 land transfers to enterprises, with an additional 1,214 transactions in progress. Nine cities implemented USAID-sponsored real estate information systems, which make available integrated and reliable information on real property, thus encouraging real-estate market activity. USAID's land-markets program was accompanied by an aggressive public education campaign on land reform. As a result, the quantity and quality of news coverage on land reform issues increased, with an average of thirty articles per month published in the national press, up from five per month last year.
- **USAID Farm Restructuring and Privatization Programs:** In FY 1996, USAID-funded advisors made significant progress in demonstrating the economic and commercial benefits of collective-farm restructuring and privatization and in developing an indigenous capacity to undertake farm restructuring. USAID's farm reorganization program facilitated the creation of over 600 smaller, more efficient and more profitable privately owned farms. In 15 of Russia's oblasts (regions), USAID-funded advisors helped establish a self-sustaining capability to conduct farm reorganization at the local level. As of the end of FY 1996, 300 Russian farms had begun to reorganize with assistance from USAID-supported farm-reorganization working groups, and 64 had completed the process, creating more than 400 new private farms and enterprises. Moreover, the newly created private farms increased their profitability by over 27 percent. This program is being extended into FY 1997 with the active support of the Russian Government. A supporting activity, Market-Oriented Farm Support (MOFSA), got under way in FY 1996 in two oblasts where farm reorganization was already moving along. MOFSA helps develop mechanisms and resources to provide privatized farms and farm enterprises with access to inputs (including credit) and markets, and to relieve the privatized entities of the responsibility for provision of such social services as health care and education that were formerly provided by the collective and state farms.

USAID Housing Reform Programs: A national law on homeowners' associations was passed with the help of USAID-funded advisors. As of the end of FY 1996, some 200 condominium associations had been registered in Western Siberia as a result of USAID-funded training in the formation of such associations, and the number of condominium associations in Russia increased from 100 in FY 1995 to 400 in FY 1996. USAID also funded the first-ever competition in Russia for a private firm to provide maintenance for private housing. By summer 1996, there were over 400,000 privately maintained housing units in Moscow (up from 8,000 in 1993), and ten to fifteen percent of the housing stock in ten major Russian cities was being privately maintained. USAID also supported World Bank projects in the areas of tariff reform, land auctions, procurement-process development and housing infrastructure. In addition to

leveraging World Bank funding to ensure program sustainability, USAID facilitated the formation of eight nongovernmental organizations (NGOs) advocating and supporting housing reform.

- **World Bank Housing-Sector Loan Support:** After successfully leveraging a \$400 million World Bank housing-sector loan to Russia which was approved in 1995, the HSRP provided \$2 million in technical assistance to the World Bank for the preparation of four additional urban-sector loans for Russia valued at close to \$1.3 billion. The additional loans will finance a St. Petersburg central city rehabilitation project, a municipal water supply and sanitation project, an enterprise-housing divestiture project and a future housing finance project.

Russian Officer Resettlement (ROR) Program: At the Vancouver Summit in April 1994, President Clinton made a commitment to support a pilot program to provide 450 housing units to Russian officers being demobilized from the Baltic countries and elsewhere. At the subsequent Tokyo G-7 Summit, a 5,000-unit, \$160 million Russian Officer Resettlement Follow-On Program was announced. In April 1995, Congress rescinded \$15 million from the Follow-On Program, which was then revised to accommodate the reduced level of funding. The program's voucher component was subsequently implemented at an additional savings of \$1.5 million. As of the end of FY 1996, the ROR Program was close to completion. The program's voucher component, under which returning demobilized Russian officers purchased units using vouchers, was completed in FY 1996, with 2,441 vouchers issued in the cities of Pskov, Yaroslavl, Tver, Tula, Tambov, Ulyanovsk, Saratov, Nizhniy Novgorod, St. Petersburg and Belgorod. No additional vouchers will be issued. Nine construction projects comprising a total of 1,164 units were completed, with 920 of these units turned over to officers as of July 1996. The last construction site is scheduled to be completed by summer 1997.

USDA Emerging Markets Program (EMP): In FY 1996, the EMP continued to share U.S. agricultural expertise with Russia's agricultural sector, with the dual goal of improving the effectiveness of Russia's food markets and promoting U.S. agricultural exports. (see also Economic Development Programs section)

- **Siberian Market Study of High-Value Products:** The EMP is supporting a two-tiered study of Siberian markets for high-value products, examining both the distribution systems and consumer/buyer behavior. The study will be conducted in five cities—Novosibirsk, Omsk, Tomsk, Krasnoyarsk and Irkutsk—in collaboration with the American Business Center in Novosibirsk and will focus on identifying opportunities for U.S. firms and providing guidance for their effective operation in the Siberian market.
- **Integrated Protein-Poultry Project Assessment:** The EMP is sponsoring an assessment which will determine the probability of success of a proposed project to establish an integrated poultry operation in Russia. The assessment will evaluate risk, return on investment, and trade growth potential, and will concentrate on an oilseed crushing facility, a feed mill plant, poultry farm operations, chicken slaughter operations, logistics and distribution networks, finance, marketing, and project management.
- **St. Petersburg Farm Privatization Project:** In October 1996, the second of two U.S. farm couples to live on a farm outside of St. Petersburg returned to the United States. The two Extension Service coordinators spent six months at the farm, helping to organize a business management center and set up a locally run agricultural consultation center. The farm is now being run by a Russian manager.
- **Training for Urals Region Importers:** In spring 1997, the Foreign Agricultural Service (FAS) will conduct training in Yekaterinburg, Chelyabinsk, Ufa and Omsk for Russian importers. Training will be provided by U.S. private-sector representatives and will be offered in an interactive, rather than lecture, format.

Financial-Sector Reform Programs: The U.S. Government continued to promote the development of a market-supportive financial sector in Russia. USAID-funded advisors helped the Russian Securities and Exchange Commission develop a homepage on the Internet, as well as an information page on Reuters Market 2000. USAID-funded advisors also helped with the flotation of Russia's first issue of Eurobonds.

Training and Exchange Programs: In FY 1996, training and exchange programs continued to be a fundamental part of U.S. Government assistance to Russia, helping to sustain long-term linkages between the peoples of Russia and the United States. USAID continued to provide professional and technical training in all of its sectoral programs, including the areas of taxation and budgeting, business and management, energy and environment, NGO development and health care.

- **USIA Professional Exchange Programs:** Although exchanges involving the Russian Duma (Parliament) had been postponed due to the Russian presidential elections in June and July, in September, the chairman and five members of the Duma's Defense Committee participated in an intense, highly-focused exchange program. The Duma representatives met with U.S. Congressional leaders and senior-level Defense Department officials to discuss crucial issues such as NATO expansion, START II (the Duma was preparing to vote on START II ratification in an upcoming session), the Chemical Weapons Convention, Middle East peace, and the war in Chechnya. In FY 1996, USIA also brought 200 senior-level Russians policy-makers to the United States on professional exchanges under the FREEDOM Support Grant (FSG) Program. Based on direct feedback from participants, the FSG Program continued to meet its goal of helping Russian policy-makers establish contacts with their U.S. counterparts.
- **USIA Community Connections Program:** FY 1996 also saw the introduction of a new community-based exchange program called "Community Connections," based on USIA's highly successful "Business for Russia" Program. After visits to target regions and discussions with local officials, USIA identified the following areas of interest to Russian communities: environmental policy, fiscal federalism, support for small and medium-sized businesses, social services, civic education, state-municipal relations, law enforcement, land management, educational reform and public policy. The Community Connections Program will bring over clusters of entrepreneurs and local government officials from particular target cities and regions in order to help them establish linkages with their U.S. counterparts.
- **USIA Academic Exchange Programs:** USIA's academic exchange programs continued to be an effective means of reaching out to the up-and-coming generation of reformers in Russia. At the end of FY 1996, some 1,300 Russian high school students were studying in the United States, and 660 U.S. students were studying in Russia under USIA's Secondary School Initiative, and 111 undergraduates, 75 graduate students and 85 faculty members were in the United States on USIA academic exchange programs.
- **Peace Corps English-Teaching Volunteers:** In FY 1996, Peace Corps English-teaching volunteers taught over 3,000 students and trained over 300 Russian teachers of English. One volunteer in the Russian Far East presented seminars on methodology to nearly 300 teachers. Ten volunteers in Western Russia conducted more than 80 presentations each on cultural-education methodology and American literature to a total of over 1,000 attendees. A Peace Corps volunteer at the Far Eastern State University in Vladivostok was on the planning and organizing board of a June 1996 international conference on teaching American culture, during which the volunteer presented eight sessions to the international participants. In collaboration with Peace Corps environmental volunteers, English-teaching volunteers also organized six English-language camps and one "Camp America" English-language and American culture camp for a total of over 200 students.

Democracy Programs: In FY 1996, U.S. Government-funded democracy programs continued to focus on strengthening democratic institutions and fostering the development of a civil society in Russia by funding activities which promote the rule of law, civic education and increased public participation in the policy-making process, and by supporting independent media, trade unions and nongovernmental organizations (NGOs).

- **Support for Independent Media:** The USAID-funded Media Development Program (MDP) supported partnerships between U.S. and Russian media organizations, with the goal of helping the Russian partners become financially self-sustaining. MDP supported partnerships between the National Association of Broadcasters and the Russian Nation Association of Telebroadcasters, the Providence Journal Company and the Globe Press Syndicate, and Bloomberg LP and Skate Press. In addition, the Children's Television Workshop (CTW) developed a Russian-language version of the

PBS educational children's program "Sesame Street," with an emphasis on teaching democratic and civic values. CTW trained Russian puppeteers and worked with a Russian production company to film live-action and animated sections of the program. Broadcasts of "Ulitsa Sesam" began in late 1996.

- **NGO Development Programs:** A central component of USAID's democracy program in Russia was the strengthening of nongovernmental organizations throughout the country. The Civic Initiatives Program (CIP) implemented by Save the Children continued its work throughout Russia as USAID's main source of support for local NGOs. Through its regional NGO support centers in Krasnodar and Novosibirsk, CIP awarded more than 150 micro-grants to local NGOs, and provided critically needed technical assistance and training in organizational and management skills development, legal issues related to NGO activity, social marketing and the training of trainers. As a result of training provided to 650 women NGO leaders in conflict resolution, leadership and management, 48 women's groups were successful in raising program funds from the United Nations, the Eurasia Foundation, the Embassy of the Netherlands, the League of Women Voters, and the British Know-How Fund. Another USAID-funded NGO-strengthening activity provided 416 small grants totaling \$950,000 and 40 partnership grants totaling \$1.4 million, creating a network of 182 NGOs. In addition, USAID funded the printing and distribution of 2,000 copies of a legal handbook for NGOs.
- **Rule-of-Law Assistance:** USAID grantees affiliated with Harvard University and the University of Maryland helped Russian officials develop and pass the second part of a reformed civil code. Part II focuses on banking and securities and introduces an entirely new set of rules for individual and commercial contracts. USAID grantees provided ongoing assistance to Russian officials to facilitate the passage of Part III of the Code, which includes sections on inheritance, intellectual property, private international law, and ownership and sale of land.
- **Criminal-Justice Reform Programs:** Two complementary projects—a joint effort undertaken by the U.S. Department of Justice (DOJ) and the American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI), and a program implemented by the USAID-funded Associates in Rural Development/Checchi Consortium (ARD/Checchi)—continued to support the reintroduction of jury trials in Russia and the drafting of new criminal codes, and trained prosecutors throughout the NIS to fight crime effectively while simultaneously respecting human rights. These efforts are designed to promote the development of a reformed criminal justice system that can fight crime and corruption, protect human rights, and instill public confidence in a society based upon the rule of law. ARD/Checchi also continued to work with Germany's Marshall Fund to support criminal law clinics in Russian law schools, which provided crime-fighting training to future lawyers and judges.
- **USAID Municipal Finance and Management (MFM) Program:** The USAID-funded Research Triangle Institute (RTI) completed final testing and activation of a financial software package which it installed last year in the Finance Department of the City of Nizhny Novgorod, Russia's third largest city. Nizhny Novgorod's municipal government thus became the first in Russia to begin using U.S.-style, fund-based accounting principles. RTI also prepared to install such systems in other Russian cities, so as to enable an increasing number of city managers to report financial performance against a transparent budget, and to control expenditures and deliver public services more effectively.
- **Congressional Research Service (CRS) - Parliamentary Development Program:** Since its establishment in May 1994, CRS's USAID-funded program in Russia has been providing technical assistance and training, automation and networking equipment, expert consultations and library materials to the library and research service of Russia's Federal Assembly. The program's was completed on December 31, 1996.

Technical Assistance and Training: As of the end of FY 1996, CRS had provided training to a total of 89 researchers, policy analysts, information specialists, and librarians, as well as a total of 149 staff members of the Russian Federal Assembly. CRS also provided shorter orientation programs for members and staff of the Russian Parliament traveling to Washington under other auspices. In FY 1996, CRS organized U.S.-based parliamentary institutes on library management (funded by the Thatcher Foundation), research and analysis, and parliamentary committee work. In June, five automation specialists from the Federal Assembly participated in a five-day training

program on automation and the Internet. In September, three CRS librarians traveled to Moscow for one week to help the parliamentary library develop its management, materials organization and services.

Equipment/Automation Assistance, Library Materials: In FY 1996, CRS acceptance-tested and delivered \$350,000 in automation equipment for the Federal Assembly. By the end of FY 1996, CRS had ordered some \$85,000 in books, periodicals and CD-ROMs for the Federal Assembly's parliamentary library.

Anti-Crime Training and Technical Assistance (ACTTA) Program: A second group of fifteen officers from the Russian Ministry of Internal Affairs (MVD) completed a two-month course at the FBI's International Law Enforcement Academy (ILEA) in Budapest. Among the eight courses offered to MVD personnel were a new seminar on combating computer crimes and violations of intellectual property rights, and a new course on public corruption and internal investigations. In addition, the U.S. nongovernmental organization Project Harmony completed a reciprocal law enforcement exchange program involving law enforcement officials of Oryol, Russia, and state and local police departments in Massachusetts, and the U.S. Customs Service (USCS) and the U.S. Drug Enforcement Administration (DEA) established attache offices in Moscow.

- **Programs to Combat Commercial Crime:** During the July meeting of the Gore-Chernomyrdin Commission, the U.S. and Russian Governments agreed on concrete steps to help combat commercial crime, and the two sides subsequently began to work on a white paper on impediments to trade and investment in Russia, as well as to organize crime seminars throughout Russia for companies doing business there. In addition, the Commerce Department's Commercial Law Development Program (CLDP) formed a partnership with the U.S.-Russia Business Development Committee's Subcommittee on Commercial Crime to address the crime problems faced by U.S. and Russian entrepreneurs. U.S. federal agencies participating in this program included the Commerce, State and Justice Departments, the Federal Bureau of Investigation (FBI), the U.S. Secret Service (USSS) and the U.S. Customs Service (USCS), all of which collaborated with their Russian counterparts to develop a workplan which was agreed upon during a meeting in Moscow in July. The workplan includes the exchange of white papers on issues related to commercial crime, and the establishment of U.S. law enforcement contacts for Russian entrepreneurs.
- **Programs to Combat Money Laundering:** As part of a new U.S. Government initiative to combat money laundering, an interagency group including representatives from the Federal Reserve, the Office of the Comptroller of the Currency, and U.S. federal law enforcement agencies visited Moscow in April to assess Russia's ability to combat money laundering and financial fraud, and to conduct a preliminary assessment of the specific training needs of Russia's Central Bank and the Currency Export and Exchange Control Agency in this area. The team identified the passage of money-laundering legislation as the first priority, and provided their Russian counterparts with models of interagency cooperation that could be useful in combating financial crimes in Russia. A Russian delegation of law enforcement and regulatory personnel involved in the drafting and review of Russian money-laundering legislation was subsequently invited to Washington and New York in June and July to meet with U.S. officials and to learn about U.S. anti-money-laundering legislation and the U.S. task-force approach to combating this problem. The Russian interagency team also met with Congressional banking committee staff and officials at Riggs Bank. In addition, the Federal Law Enforcement Training Center (FLETC) offered courses in Moscow and St. Petersburg on combating money laundering and banking fraud. Expanded training in this area will be offered in FY 1997.

U.S. Nuclear Regulatory Commission (NRC): In Russia, the NRC's work with the Russian State Committee for the Supervision of Nuclear and Radiation Safety (GosAtomNadzor or GAN) provided some noteworthy achievements in FY 1996. The NRC conducted an extensive practical workshop on probabilistic risk assessment (PRA) at the Kalinin nuclear power plant (NPP). Workshop participants identified plant-initiating events and developed detailed event-sequence logic diagrams. NRC's PRA project provided training to a core Russian PRA team of over 60 technical and project management personnel to enable them to complete the assessment of the Kalinin NPP with oversight by the NRC. With respect to developing GAN's legal basis, the NRC provided additional reviews, analyses and consultations on a draft law on the regulation of nuclear and radiation safety, which provides GAN with clear, independent authority to set standards and regulations, issue licenses with specific conditions,

conduct and establish programmatic inspection activities and take enforcement actions, including the imposition of civil penalties on the operating organizations. This draft law also contains an important administrative aspect: the collection of license fees to support regulatory services. In its effort to develop GAN's capacity to train regulatory personnel, the NRC awarded a competitive commercial contract to acquire analytical simulators replicating VVER-1000/320, RBMK-1000 and VVER-440/213 reactor designs. To maximize the program's cost-efficiency, the simulator contracts for Russia and Ukraine included a training component to enable the recipients of the simulators to perform limited software modeling to reflect specific plant characteristics. Additional NRC program activities included a workshop on the development of new regulations (including technical and safety regulations) and on economic and legal considerations of plant operations, as well as a workshop on start-up testing, licensing and inspection procedures, which included observation of actual plant start-up activities at a U.S. nuclear power plant (Watts Bar). The NRC also helped develop programs for training regional and site inspectors, as well as for training in severe accident codes. In September, as part of its cooperative efforts with Russia under the Joint Coordinating Committee for Civilian Nuclear Reactor Safety (JCC-CNRS), the NRC participated in meetings in Moscow of a working group on radiation embrittlement, structural integrity and life-extension of reactor pressure vessels and supports; and a working group on nuclear power plant aging and life extension. These meetings provided participants with an opportunity to exchange research results of mutual interest and to combine the efforts of the two working groups, thus increasing their effectiveness. (see also U.S. Department of Energy - Nuclear Safety Programs section in Part III)

Security Programs: A wide range of security-related activities took place in Russia in FY 1996. For example, during the latter half of FY 1996, the U.S. Department of Energy (DOE) and the Russian Ministry of Atomic Energy (MinAtom) agreed to add four MinAtom facilities to the cooperative program in material, protection, control and accounting (MPC&A). This brings to 29 the total number of civilian and defense-complex facilities under the MPC&A program throughout Russia. An agreement between DOE, the Russian Ministry of Defense and the Kurchatov Institute was signed in September, allowing MPC&A cooperation to begin at naval storage locations in Russia containing fresh highly enriched uranium fuel for naval nuclear reactors. DOE and MinAtom also reached an agreement formally to begin scientific and technical cooperation under a critical test ban treaty. In addition, activities funded under the Defense Department's Cooperative Threat Reduction (CTR) Program continued at an accelerated pace. A joint Russian-American demonstration of transportation-security technology for the rail transport of weapons-usable nuclear material took place at the end of September. (see also Security Programs section in Part III)

Energy and Environmental Programs: A total of 539 Russian participants benefited from 52 training activities on subjects ranging from the financial analysis of electric-power projects to environmental management in the oil and gas sector. The electronic exchange of information on environmental and public health issues was launched in September. Forty Russian health specialists from more than 20 cities with severe environmental problems attended a workshop in Moscow which put these specialists in touch with U.S. electronic librarians for the purpose of establishing an electronic communications network for environmental health specialists throughout Russia. Environmental projects and training in water treatment and air pollution, environmental audits of major industries and heating plants, and a "clean coal" demonstration project were also funded in FY 1996.

- **The USAID Energy and Environmental Commodity Import Program**, which is providing U.S. energy-efficiency and pollution-mitigation equipment to over 30 sites in Russia, had delivered \$30 million in equipment by the end of FY 1996, by which point over 60 supply contracts had been entered into between Russian importers and U.S. suppliers. By improving the efficiency of Russia's district heating systems, this program supports a U.S. initiative proposed through the Gore-Chernomyrdin Commission to improve energy efficiency in Russia. Related USAID-funded technical assistance supported the development of energy-efficiency associations and private energy-service companies. USAID-funded advisers were in the process of designing a pilot program in demand-side management in collaboration with several of Russia's regional energy companies.
- **Energy-Sector Restructuring Assistance:** A USAID-funded proposal for restructuring Russia's power industry was reviewed by interested Russian organizations, whom USAID and World Bank-funded advisers tried to help reach a consensus on the future of the industry. USAID-funded advisers worked to help strengthen the role of Russia's Federal Energy Commission and began a dialogue with several regional electricity commissions on the relationship between federal and regional authorities.

USAID-funded advisors also assisted with project preparation for a proposed \$800 million combined-cycle gas plant in Krasnodar to be considered for financing by the World Bank. If approved, this would be the first power-sector loan made in Russia by an international financial institution, and it would include U.S. investors as equity participants. In addition, two major U.S. utilities, Illinois Power and Entergy, established partnerships with Russian utilities to share modern utility-management concepts and experience with their Russian counterparts. USAID also continued to support Russia's coal sector through a U.S. coal industry and labor organization. This work helped lead to the Russian Government's restructuring of the country's heavily subsidized coal industry. USAID-funded advisors helped design a \$500 million World Bank coal-sector restructuring loan that was approved in June 1996.

- **Environmental Protection Agency (EPA):** In Volgograd, the U.S. Environmental Protection Agency (EPA) used USAID funding to provide technical assistance to the Russian Air-Quality Management Program (RAMP). This pilot project was initiated to develop a long-term strategy that will significantly reduce the negative impact of air pollution on public health. The project demonstrated alternative approaches to improving air-quality management, and will serve as a model for other industrial areas in Russia. The project focused on a combination of new technology, training, and increased public awareness, to promote a measurable reduction in air pollutants that threaten public health. In mid-1996, a workshop was held to develop a sustainability and dissemination plan for the project, during which a Russian-American consortium was formed to guide the transition process. The Center for Environmental Training, which opened in early FY 1996, offered training courses in air quality management and related environmental issues. A citizens' empowerment task force was formed in Volgograd including nongovernmental-organization (NGOs), business, government and education leaders to create community action projects and to promote greater citizen involvement in local decision-making. The Task Force proposed creating a citizen's guide to local environmental groups, producing a video on Volgograd's environmental problems, and creating a media campaign to raise awareness of environmental issues. The Task Force also proposed educational activities, including a participatory campaign entitled "Volgograd is the Greenest City in Russia."
- **USAID Lake Baikal Project:** In FY 1996, USAID-funded advisors worked with local and regional government officials, nongovernmental organizations (NGOs) and the private sector to protect Siberia's Lake Baikal and its associated watershed, which contain more than 20 percent of the world's fresh water and support enormous biological diversity. The project combined land-use planning, promotion of sustainable agriculture, and the development of village-based ecotourism. An independent mid-term evaluation completed in mid-1996 indicated that the project has had a significant impact in increasing the capacity of local and regional governments in land-use planning and interagency coordination. As a result of USAID assistance, a coordinated, environmentally and economically beneficial regional approach to promote ecotourism was formulated, and a regional tourism guidebook was finalized and its distribution plan developed. USAID also sponsored training seminars in Baikal-area villages on operating bed-and-breakfast inns for tourists. Also, a fact sheet on forest investment opportunities in the Lake Baikal region was completed and distributed to joint-stock companies interested in working in the region. USAID assistance in the area of forest- and timber management led to a meeting in August between USAID representatives and local authorities to explore the conversion or reprofiling of the Baikalsk Pulp and Paper Mill. In the agricultural sector, USAID sponsored a farmer-to-farmer workshop to promote the sharing of ideas and techniques among farmers, regional government officials and NGOs.
- **USAID Environmental Policy and Technology (EPT) Project:** With USAID assistance, the Novokuznetsk Vodokanal (water utility) and U.S. engineers completed a hydraulic distribution model that allowed the Vodokanal to reduce water loss, thus improving water service to the city. Also with USAID assistance, the Vodokanal was in the process of establishing a consulting firm to provide hydraulic distribution advice and services to other cities in Russia and the other NIS. For example, Mezhdurechensk, a nearby city of 200,000 people, expressed interest in replicating the Novokuznetsk model. In addition, an environmental business consulting center established in Novokuznetsk with USAID assistance was on-track with its plan to become fully self-sufficient by late 1997. More than a quarter of the center's staff of 14 is now supported through fees for courses, business-plan preparation and business consulting services paid by a combination of individuals, new businesses, established enterprises and federal employment agencies. The success of the Vodokanal and the

business consulting center demonstrate the viability of environmental technology and service companies in Russia.

- **Peace Corps Environmental Programs:** This past summer, Peace Corps environmental volunteers organized two environmental-education field camps, during which a total of over 70 students measured clean water sources, dissected animals and tracked seashore life with the aid of compasses, scales, field guide books, dissection kits, globes and microscope materials donated by U.S. communities. A group of ten Peace Corps environmental volunteers organized Earth Day events attended by over 2,000 members of local communities.

USAID Health Programs

- Under **USAID's Medical Partnership Program**, Savior's Hospital in Moscow and its U.S. partner, Magee-Women's Hospital in Pittsburgh, developed a successful program in women's reproductive health that attracted funding from multiple sources, including the Russian Ministry of Health. The Savior's Hospital Women's and Family Education Center, which offers comprehensive health education classes on topics such as childbirth preparation, prenatal and newborn care, stress management and nutrition, will be replicated in 20 new health education centers throughout Russia. A second partnership between Vladivostok and Richmond, Virginia, designed a cost-identification system that was subsequently introduced to the Vladivostok region's mandatory health insurance fund as a basis for reimbursement for all local hospitals. Under a third partnership between St. Petersburg and Louisville, Missouri, the Sokolov Medical Center adopted new hospital administration methods and is now a working model for 85 hospitals across Russia. The Sokolov Medical Center saw marked improvement in its health indicators: the average length of stay decreased from 16.7 days in 1992 to 12.4 days in 1995, while the number of patients treated has increased from 10,800 in 1992 to 14,000 in 1995.
- In FY 1996, **USAID's ZdravReform Health Care Reform Project** and the World Bank collaborated closely in Central Russia. ZdravReform helped the Tver and Kaluga Regions implement payment, information and quality-control systems, which will then be expanded to 80 major health-care institutions throughout the two regions under a \$70 million World Bank loan to be negotiated in early 1997. For an investment of \$1.2 million, USAID will ultimately have helped improve health care delivery for a population of 1.5 million Russians and will have provided models of health care reform which will be emulated throughout the region. In Kemerovo, Russia, a USAID-sponsored project merged the traditional NIS hospital and polyclinic concept with modern managed-care principles, including utilization management, provider incentives, and quality of care, resulting in a new concept similar to U.S. health maintenance organizations (HMOs), which resulted in increased overall efficiency: a full 30 percent of the beds were closed, the share of contracted care increased by 25 percent, 10 percent of the hospital cases were being treated in more cost-effective outpatient settings, and the infant mortality rate declined. In Tula, Russian health-care providers also developed an HMO-type managed-care initiative.
- In FY 1996, **USAID's Medical Technology Transfer Program** provided grants to three U.S. pharmaceutical firms planning to establish pharmaceutical production facilities in Russia. In FY 1996, the due diligence reviews of each company's business plan were completed. The companies also provided USAID-funded technical assistance and training related to the establishment of pharmaceutical distribution and production facilities.
- **USAID's Rational Pharmaceutical Management (RPM) Project** continued to promote the cost-effective selection and rational use of drugs. Influenced by several months of compelling results showing considerable cost-savings at the Ryazan State Hospital, 36 hospitals in Central Russia established drug-formulary development committees consisting of local physicians and pharmacists. These formulary initiatives will help contain costs and will provide the region with higher-quality and more effective drugs. The RPM Project also helped update prescription practices in Russia. Implementation of a new drug formulary in Ryazan State Hospital led to the removal of 1,500 costly, unsafe or ineffective drug products which physicians had previously prescribed quite often. In addition, the hospital opened a clinically oriented drug information center which offers health-care providers and patients drug information by telephone or e-mail. A similar center was also opened at

the Ryazan Medical University, providing pre-service training for medical and pharmacy students, and continuing education for physicians, pharmacists and educators.

- **USAID Health Information Programs:** In cooperation with the U.S. Centers for Disease Control and Prevention (CDC), USAID continued to help Russian public health officials improve their public health surveillance techniques, public health information and communications, and public health education. With the help of this assistance, the incidence of diphtheria in Russia was decreasing for the first time in six years. During the first five months of 1996, there were 58 percent fewer cases of diphtheria than in 1995, according to Russia's Ministry of Health and Medical Industry (MOHMI).
- **U.S. Department of Health and Human Services (HHS):** In FY 1996, HHS used USAID funding to support two meetings of the Health Committee of the Gore-Chernomyrdin Commission (GCC), as well as a health-care policy roundtable in which U.S. and Russian health experts exchanged information on health-care policy reform in conjunction with the seventh meeting of the GCC. Also in conjunction with the GCC process, a two-day reproductive health seminar involving Russia's Institute for Obstetrics, Gynecology and Perinatology was followed by three days of training in family-planning counseling provided by USAID's Women's Reproductive Health Program. In addition, a total of 100 senior Russian policy-makers participated in two policy workshops on reproductive health. As a result of a family planning workshop in Yekaterinburg, local health practitioners petitioned the governor for support for family planning programs which had been established with USAID assistance.

Humanitarian Assistance: U.S. Government humanitarian assistance programs faced a number of tax, customs and visa difficulties in the Russia during the latter half of FY 1996. Coordinator's Office humanitarian airlift missions to the Northern Caucasus in support of victims of the war in Chechnya experienced coordination problems and delays due to lack of visa support by the Government of Russia. Americares was not able to provide badly needed medicines to the Russian Far East due to customs and drug-certification problems, although these problems subsequently seemed to have been resolved, following meetings in Moscow between Americares representatives, the Bureau for International Humanitarian Aid and Technical Assistance, and the Ministry of Health. Catholic Relief Services was forced to suspend its operations in Russia as a direct result of the possibility of tax assessments by the Russian Government on revenues generated by monetizing donated agricultural commodities from the United States.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA made available \$70 million in export credit guarantees under a private-sector GSM-102 program for sales of U.S. agricultural commodities to Russia. The objectives of this program are to increase U.S. agricultural exports to this important market and to support the development of a private-sector market for high-value products in Russia. Approximately \$50 million worth of commodities were registered, representing a \$44 million increase over FY 1995. In addition, USDA announced a \$30 million GSM-102 program for FY 1997. Under its Food for Progress program, USDA donated approximately 55,000 metric tons of commodities through cooperatives in Russia. Of this amount, the National Cooperative Business Association (NCBA), in cooperation with Churches United in Global Mission, is monetizing 30,000 metric tons of wheat in the Voronezh region and 20,000 metric tons of corn in the Russian Far East. NCBA is providing technical assistance and training to help establish a guarantee fund to assist Russian importers in purchasing agricultural commodities. The Citizens' Network for Foreign Affairs (CNFA) is monetizing 5,000 metric tons of soybean meal, and is using the proceeds to provide loans to help private farmers finance agricultural equipment to improve crop production and feed-mill equipment to improve livestock feed formulation and feed quality, as well as to cover their operating expenses.

U.S. Department of Transportation - Federal Aviation Administration (FAA): In FY 1996, the FAA continued to work actively with its Russian counterparts on aviation safety, security and capacity issues. The FAA worked with the newly established Federal Aviation Authority of Russia (FAAR) on developing a modernized unified air traffic control system, as well as on expanding the use of shorter, more efficient air routes from North America to East Asia across the Russian Far East. The FAA also awarded a contract for new digital satellite communications circuits between Anchorage and the Petropavlovsk-Kamchatskiy and Anadyr air traffic control centers in the Russian Far East. In addition, work continued on a U.S.-Russian bilateral aviation safety agreement. The Russian-American Flight Safety Working Group met to review the status of the recommendations from a 1994 U.S. Government-funded joint safety evaluation, and agreed that there had been significant progress in implementing the recommendations. The FAA

worked with the FAAR to develop manuals, orders and training programs for FAAR inspectors to help them meet International Civil Aviation Organization (ICAO) standards. In May and June, the FAA used USAID funding to provide training in cockpit warning systems and airplane flight manuals. The FAA also organized a number of conferences, seminars and exchange programs for Russian aviation officials.

U.S. Department of Transportation - Federal Highway Administration (FHWA): In FY 1996, the FHWA continued to help its Russian counterparts make the transition to a market-based economy, while at the same time introducing U.S. practices that will give U.S. firms a competitive edge in Russia's road technology sector. FHWA assistance to Russia's Federal Highway Department (FHD) began informally at the request of Russian and World Bank officials, and was formalized in 1994 by agreements under which FHWA has been providing technical assistance aimed at developing Russia's highway-sector organizations and institutions, implementing World Bank-financed highway improvement loans, introducing U.S. road technology and strengthening road-technology transfer procedures in Russia. In FY 1996, FHWA's assistance efforts included advice on draft legislation; transportation department partnerships between the State of Maryland and the St. Petersburg Region, and the State of Wisconsin and the Vologda Region, and the State of North Carolina and Krasnodar Kray; the visit of Russian highway officials to the Conexpo U.S. construction industry exposition; training in pavement and bridge management using U.S. materials; and the establishment of an Internet site for the FHD which will provide access to information on U.S. highway technologies and equipment.

FY 1997 Assistance Programs: Several new programs began to show results in early FY 1997. Some 300 participants traveled to the United States beginning in October 1996 under USIA's Community Connections Program (see above). USIA's Awards for Excellence in the Teaching of English and American Studies, which will provide educational equipment to schools throughout Russia, were formally announced on October 14. In addition, guidelines were developed for an embassy-based small grants program to support community-based initiatives, which became operational in early FY 1997.

TAJIKISTAN

In FY 1996, the U.S. Government provided over \$32.5 million in assistance to Tajikistan, the main focus of which was humanitarian relief. (This includes appropriated funds, as well as \$ 1.8 million in donated humanitarian goods transported by the U.S. Government.) U.S. Department of Agriculture (USDA) food aid accounted for over two thirds of U.S. Government assistance to Tajikistan this past year. At the same time, however, our programs promoted self-sufficiency to the greatest extent possible, although there were—and will continue to be—groups in Tajikistan such as orphans, invalids and pensioners, which will keep needing relief assistance in the foreseeable future. Nevertheless, there is an understanding that this assistance will not go on forever; increasingly, direct humanitarian aid is being replaced by food-for-work programs aimed at helping Tajiks to become self-sufficient.

Economic Overview: Tajikistan made substantial progress on the economic reform front in FY 1996. The Government of Tajikistan implemented the International Monetary Fund's (IMF) recommendations and reaped the benefits: the country's macro-economic situation became largely stabilized, and inflation—which had been at a level of 1,204 percent in 1995—was expected to drop to around 50 percent for 1996. Reforms implemented in FY 1996 included an improved tax-collection system, which was so effective that there was actually a budget surplus, price liberalization, and the ending of the Soviet-era state-order system. However, there was still room for improvement, especially in the areas of privatization and agricultural restructuring, which moved forward slowly. Tajikistan also continued to have problems with its social safety net, through which assistance is provided to vulnerable groups, which have been suffering badly as a result of the economic paralysis and civil war that followed the break-up of the Soviet Union.

Political Overview: Tajikistan's progress on the political front was spottier. Although fighting was confined to a relatively small area of the country, the inter-Tajik conflict remained unresolved. Nevertheless, by the end of FY 1996, talks between the Government of Tajikistan and the opposition, which had previously resulted in nothing more than continuations of the often-violated ceasefire, began to tackle political issues related to national reconciliation.

Trade and Investment Programs: In FY 1996, the Central Asian - American Enterprise Fund (CAAEF) started full operations in Tajikistan, investing \$380,000 in a Pepsi bottling plant. The Asian Crossroads Loan Company (ACLC), a subsidiary of the CAAEF, extended four loans totaling \$383,000 to private businesses. All in all, the CAAEF disbursed approximately \$800,000 in loans and investments in Tajikistan this past year.

Business and Economic Development Programs: At the request of the World Bank, USAID funded and arranged a four-month "bridge" consultancy on privatization for the Government of Tajikistan, covering the period between the departure of a United Nations Development Program (UNDP)-funded technical assistance team and the arrival of a team sponsored by the World Bank. Thanks to this "bridge" consultancy, the Tajikistani Government's commitment to privatization became significantly stronger, and the World Bank-funded team was able to begin working at full speed immediately upon its arrival. In addition, 19 members of Tajikistan's State Property Committee received USAID-funded computer training, and five of them attended a bankruptcy evaluation course in Bishkek. A group of 31 representatives from the government and the private sector attended a privatization course in the United States under USAID's NIS Exchanges and Training (NET) Project. Also under the NET Project, a business initiative center was established which now serves as a meeting place for entrepreneurs and provides business information and training, and has developed a plan for achieving self-sustainability as USAID funding decreases.

Training and Exchange Programs

- **U.S. Information Agency (USIA):** In FY 1996, USIA's high-school and graduate-level exchange programs continued to be very successful in promoting increased contacts and mutual understanding between the United States and Tajikistan. During the 1996-97 academic year, 30 high-school students will study in the United States under USIA's Secondary School Initiative. The vast majority of USIA program alumni have returned to their home country eager to get involved in building democracy and a free-market economy in Tajikistan: for example, alumni of the high school program started up Tajikistan's first pizza delivery service. Most of the high-school program alumni went on to enroll in universities, where they studied such things as international law, economics, business management or computer science—topics which in many cases did not interest them before they had come to the United States. Four USIA-sponsored Tajik undergraduates came to study in the United States in FY 1996, as did six Tajik graduate students, who are studying public administration, library science and educational administration. In addition, 13 high-level Tajik officials traveled to the United States on USIA professional exchange programs in FY 1996, including five parliamentarians (four committee heads and the speaker's aide), a deputy prime minister, the ministers of education and justice, the head of Tajikistan's Democratic Party and four prosecutors.
- **USAID Training Programs:** In FY 1996, USAID's NIS Exchanges and Training (NET) Project provided U.S.-based training to 81 Tajiks, bringing the cumulative number of NET participants from Tajikistan since the program's inception to 291. Training topics included privatization, agricultural reform, and legal and judicial reform. For example, a group of employees of the Tajik Technological University attended NET training courses in food-processing technologies. USAID's Farmer-to-Farmer Program sent Americans with practical business skills to Tajikistan, where they applied them to the country's agribusiness sector.
- **Salzburg Seminar:** Ten Tajiks attended intensive Salzburg Seminar training programs in Austria, which are funded partially by USIA and partially by the private sector. After completing their training, these ten participants joined 23 alumni of the 1994-95 Salzburg class to form their own nongovernmental organization (NGO), the Association of Salzburg Seminar Alumni and Supporters of American Initiatives in Tajikistan. This group—the first of its kind in the NIS, as far as we know—became active in several areas, including English-language teaching, and is trying to help other alumni in the region establish similar associations.
- **Other Training Programs:** The Commerce Department's Special American Business Internship Training (SABIT) Standards Program provided U.S.-based training to seven Tajik standards experts from the oil and gas, construction/infrastructure, and banking industries. Two Tajik participants attended the College of Strategic Studies and Defense Economics at the Defense Department's

Marshall Center in Garmisch, Germany. USDA's Cochran Fellowship Program was also active in Tajikistan.

Democracy Programs: The Law and Democracy Center, established in Dushanbe by the USAID-funded American Legal Consortium, translated Tajik laws into English and provided access for the general public and government officials to legislative databases containing laws passed in the United States, Russia, Kazakstan, Kyrgyzstan and Tajikistan. The Center developed a self-sustainability plan in conjunction with the Eurasia Foundation, the United Nations High Commissioner on Refugees (UNHCR), the Organization on Security and Cooperation in Europe (OSCE), and the Open Society Institute. Internews, a USAID grantee, sponsored a seminar to review draft laws on independent radio and television which were to be discussed at a subsequent session of the Tajik Parliament (Majlisi Oli). With USAID support, a group of Tajik nongovernmental organizations (NGOs) dissatisfied with their country's outdated law on public associations held public hearings on the law and began preparing a new alternative draft of the law, which was to be sent to the parliament for consideration.

Energy and Environmental Programs: In FY 1996, Tajikistan continued to participate in regional USAID-funded energy and environment projects. Tajik representatives attended USAID-financed regional conferences on water use (in Bishkek and Almaty), environmental issues (in Tashkent) and energy issues (in Almaty).

Humanitarian Programs: Humanitarian programs continued to be the major focus of U.S. Government assistance to Tajikistan in FY 1996. USDA food grants were very effective in alleviating hunger, due in large part to the excellent coordination that existed among private voluntary organizations (PVOs) operating in Tajikistan, thanks to the leadership efforts of the United Nations World Food Program. For example, U.S. Government humanitarian assistance accounted for as much as 50 percent of the food in Gorno-Badakhshan.

- The **International Rescue Committee (IRC)** implemented programs in the areas of water- and sanitation-system rehabilitation, health education and small-enterprise development. Under its water-system program, IRC installed 30 submersible electric pumps and 2,591 hand pumps, repaired 579 pumps and built 67 latrines. In addition, IRC established 13 soap-making facilities, six cottonseed oil production facilities and three poultry farms. In order to make these operations self-sustainable more quickly, IRC provided training in business management, accounting and tax compliance.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA provided 35,000 metric tons of wheat to the Government of Tajikistan under a \$11 million Title I-funded Food for Progress grant. The objectives of the grant were to help ease the country's civil strife and to promote the Tajik Government's efforts to establish a functional banking system including agricultural credit, which is essential to agricultural development. In order to meet the conditions of the grant, the Tajik Government has permitted the privatization of peasant farms, trucking, harvesting, and the marketing of produce, and has provided funds for the extension of credits to help private-sector farmers purchase farm inputs. Under its Food for Progress program, USDA provided 18,500 metric tons of commodities to be distributed by four U.S. PVOs: the Aga Khan Foundation (7,000 metric tons), CARE (3,000 metric tons), Mercy Corps International (2,500 metric tons) and Save the Children (6,000 metric tons). The commodities were used in both direct-feeding and food-for-work programs which benefited approximately 650,000 individuals who were suffering as a result of unstable conditions and food shortages in Tajikistan.

- **The Aga Khan Foundation** helped promote the long-term development of Gorno-Badakhshan by progressively reducing its dependence on humanitarian assistance and by improving wheat and potato yields through experimental rural development activities for private farmers.
- **Mercy Corps International** delivered USDA food commodities to vulnerable groups, distributed clothing and other donated items from the United States, and managed an innovative lending program, under which Tajik farmers and entrepreneurs repay small loans through in-kind donations to charitable institutions. Previously funded totally by the monetization of USDA commodities, the loan program was partially funded by USAID in FY 1996.

- **Save the Children (U.S.)** used USDA food commodities on a food-for-work basis, as well as materials funded by UNHCR and the State Department's Bureau of Population, Refugees and Migration, to help reconstruct approximately 5,000 houses destroyed during Tajikistan's civil war. In addition, Save the Children provided training and otherwise unavailable medicines to approximately 70 rural clinics, whose functioning was crucial, given the increase in infectious diseases in Tajikistan in FY 1996, especially in the south.
- **CARE International**, in addition to distributing USDA food commodities, began helping an association of 571 small farmers—the first such association in Tajikistan— through a multi-year project designed to increase productivity, reduce the costs of inputs, and expand market options.

Health Programs: A USAID-funded hospital partnership was established between the Boulder Community Hospital and a hospital in Dushanbe. The Dushanbe hospital was transformed into a city medical center modeled on the Boulder facility, and it began serving as a center for training and exchange program activities. Health-care providers from Boulder conducted seminars on such topics as hospital management and finance, medical education, infection control, women's health and nursing practices. Six Tajik nurses participated in a nursing conference in Almaty, Kazakstan, and 250 nurses from throughout Tajikistan attended a nursing conference in Dushanbe, during which the partners from Boulder held seminars and provided training.

Eurasia Foundation: In addition to awarding several small grants, the Eurasia Foundation funded teacher and staff exchanges for the newly established American International College, a joint venture between the University of Nebraska at Omaha and the Tajik Technological University, which will offer courses in international trade and information science.

FY 1997 Assistance Programs: In FY 1997, the U.S. Government plans to provide over \$29 million in assistance to Tajikistan, of which \$23 million will be food assistance and \$4.4 million will be training and technical assistance in the areas of economic restructuring and privatization, health care and democratic institution-building. The Central Asian - American Enterprise Fund (CAAEF) is expected to increase its activity level in Tajikistan, providing crucial credit for Tajik entrepreneurs. Although humanitarian assistance will still represent the bulk of U.S. Government assistance to Tajikistan, the amount of humanitarian assistance provided will decrease somewhat.

TURKMENISTAN

In FY 1996, the U.S. Government provided approximately \$14.0 million in assistance to Turkmenistan. (This includes appropriated funds, as well as approximately \$120,000 in donated humanitarian goods transported by the U.S. Government.) This assistance consisted of approximately \$1.7 million for USAID's NIS Exchanges and Training (NET) Project, \$225,000 for the Defense Department's International Military Education and Training (IMET) Program, \$400,000 for USIA exchange programs and \$10 million for PL-480 wheat. U.S. Government-funded technical training and exchange programs supported Turkmenistan's steps toward economic restructuring and attracting foreign investment. Democratic reform, social-sector development, and environmental issues also continued to be major emphases of our assistance effort.

Political Overview: In FY 1996, political control in Turkmenistan remained in the hands of President Niyazov and his cabinet of ministers. In October, President Niyazov inaugurated Turkmenistan's National Institute for Democracy and Human Rights, whose mandate is to conduct research in support of the democratization of the Turkmen Government and society, and to monitor the observance of human rights in Turkmenistan.

Economic Overview: Economic reform outpaced political reform in Turkmenistan in FY 1996. In January 1996, the Government of Turkmenistan began implementing a number of macro-economic reforms recommended by the International Monetary Fund (IMF): these included limiting the extension of credit to public-sector enterprises, managing the budget deficit and liberalizing the country's foreign exchange system. Specifically, the government brought its procurement/investment decision-making under more centralized control; integrated oil, gas and cotton export revenues into its central budgetary

plans; and established a unified exchange rate. Although these reforms helped rationalize economic decision-making, Turkmenistan's state sector continued to dominate the country's economy, and major economic distortions persisted. Nevertheless, during the first half of 1996, the Government of Turkmenistan strongly adhered to its macro-economic reform policy, and as a result, by July 1996, inflation had fallen dramatically. However, a relaxation of fiscal and monetary controls took place in August and September, and it was unclear whether this policy change reflected the government's abandonment of its January 1996 macro-economic reforms or simply a temporary slippage.

Trade and Investment Programs: In FY 1996, the Government of Turkmenistan established a Foreign Investment Agency as part of an effort to centralize its decision-making on foreign investment and indebtedness. In meetings with visitors from the United States, including the board of the Central Asian - American Enterprise Fund (CAAEF), Turkmen authorities spoke of their interest in increasing trade and attracting foreign investment to their country. USAID's NIS Exchanges and Training (NET) Project organized a U.S.-based program on maintaining a favorable investment climate, as well as a U.S.-based program on international contracting for Turkmen oil- and gas-industry officials. USAID's Farmer-to-Farmer Program organized a seminar on international contracting standards which resulted in requests for additional assistance in that area.

Business and Economic Development Programs: U.S. Government assistance efforts in this area were largely focused on projects that promoted the development of a healthy business environment and economic reform. A total of 65 Turkmen participated in short-term, U.S.-based NET training courses on topics including market-based legal reform, bank reform, tax reform, and commercial insurance development. NET post-training follow-on activities organized in Turkmenistan included a well-received workshop on national budgeting at the Ministry of Finance and seminars on agribusiness development and agricultural privatization, both co-sponsored by USAID's Farmer-to-Farmer Program. U.S. Farmer-to-Farmer volunteers advised Turkmen farmers and entrepreneurs on soft-drink production, sugar-beet farming, honey marketing, agricultural bank loans and dry-land cattle farming. The Commerce Department's Special American Business Internship Training (SABIT) Program provided comprehensive U.S.-based internships for Turkmen standards experts from oil and gas sector and the infrastructure and construction sector, as well as internships in the financial services sector. The Central Asian - American Enterprise Fund (CAAEF) had considerable success during its first year of operation in Turkmenistan, making eight direct loans and one direct investment.

Peace Corps: As of the end of FY 1996, there were 76 Peace Corps volunteers in Turkmenistan, 37 of whom were in training and began their service in December 1996. Also in December, the Peace Corps introduced a pilot business-development program focused on providing business education courses in Turkmenistan's institutions of higher learning, as well as workshops for private citizens. Peace Corps volunteers also taught English (see Training and Exchange Programs section below) and implemented health-sector programs. Peace Corps volunteers in the health sector assessed nurse-training needs and exchanged information with Turkmen health-care providers on maternal and children's health issues. The Peace Corps' Small Projects Assistance (SPA) Program funded six projects, including a national diabetes center, a school water project, and a health-education resource center. These low-cost SPA projects provided tangible benefits to small, needy communities. In FY 1997, the Peace Corps will stabilize its new health/nursing program with the addition of six nurses.

Training and Exchange Programs: In FY 1996, the Government of Turkmenistan continued to welcome U.S. Government-funded training and exchange programs as a means of acquiring job-related technical skills, as well as exposure to American ideas, problem-solving approaches and culture. Although most of the training programs funded this past year were quite successful, a few programs experienced recruitment problems, partly due to the fact that there is such a small number of mid-and upper-level officials in the Turkmen Government. Other donors shared our frustrations over occasional refusals or delays in the granting of exit permits, and in many cases, program participants returned home only to encounter resistance in their efforts to effect policy changes. As a result, these participants' ability to apply the knowledge they had gained during their training was quite limited.

- **Peace Corps English-Teaching Volunteers:** In FY 1996, English language training remained a high priority of the U.S. Government assistance effort in Turkmenistan. Of the 74 Peace Corps volunteers working in Turkmenistan at the end of FY 1996, 62 were teaching general and specialized English. More than 2,500 secondary school students and 400 students at institutions of higher education

received English-language training. Peace Corps volunteers established six regional English-language educational resource centers, developed new secondary-school and medical-school English language examinations, compiled what may be the first-ever Turkmen-English dictionary, organized workshops for local English teachers, and developed an English curriculum for medical institute students. Using funding from the Peace Corps Small Projects Assistance (SPA) Program, volunteers organized a summer English-language immersion camp for 360 Turkmen children, in conjunction with Turkmenistan's Ministry of Education.

- **USAID and USDA Training Programs:** USAID's NET Project and Farmer-to-Farmer Program addressed the Turkmen Government's desire for programs that transfer practical knowledge which is directly applicable to economic development. The NET Project also organized training programs on judicial reform and health-care reform. The latter program focused on family physicians, who were also a main focus of USAID's ongoing health-care reform project. Through its Cochran Fellowship Program, the U.S. Department of Agriculture (USDA) provided Turkmen officials with training in dry-land farming and in techniques for developing an effective commodity exchange.
- **USIA Exchange Programs:** USIA's high-school, undergraduate and graduate-level exchange programs continued to attract large numbers of qualified applicants from Turkmenistan. USIA also organized professional exchange programs for Turkmen participants, including a program on jurisprudence in a constitutional society for representatives of Turkmenistan's Ministry of Internal Affairs, the Office of the Prosecutor General, a local court, and the Collegium of Attorneys. However, the combination of an abbreviated program year, USIA budget reductions, and a staffing gap at our embassy resulted in fewer exchanges taking place than had been anticipated.

Democracy Programs: With grants from the Eurasia Foundation, ISAR and other organizations, several nascent Turkmen NGOs conducted a variety of low-key but surprisingly effective activities. A participant in a USIA exchange program on NGOs and civic education developed and published a civic education teacher training manual which he and other school teachers began using in local public schools.

Energy and Environmental Programs: USAID-funded advisors continued to assist a USAID-funded water treatment facility and offered courses related to Aral Sea regional health issues. Under a new region-wide project, 25 Turkmen attended a seminar on electric-power contracting and pricing. Under the Commerce Department's Special American Business Internship Training (SABIT) Program, a Turkmen specialist participated in a two-month, U.S.-based program on environmental technology.

Health Programs: The USAID-funded hospital partnership between the Cleveland Clinic and the Niyazov Medical Center conducted training activities and exchanges.

Military Cooperation and Training Programs: Turkmenistan's Minister of Defense expressed considerable interest in the Defense Department's International Military Education and Training (IMET) Program, especially English language training. The second of three IMET-sponsored English language laboratories was set up in September, with a third to follow in FY 1997. Also under the IMET Program, U.S. Coast Guard teams provided advice on establishing a Turkmen maritime force, as well as training in counter-narcotics and ship-boarding procedures. This training was well received, and at least three more team visits are planned for FY 1997. Turkmen Defense Ministry officials and military personnel actively participated in training programs sponsored by the Defense Department's Marshall Center, which also brought U.S. military officials to Turkmenistan on exchange visits. In late spring 1996, the Government of Turkmenistan implemented its presentation document for the Partnership for Peace (PFP). Six Turkmen participated in a PFP-sponsored emergency-action exercise in Nevada under a National Guard exchange program, which will be expanded in FY 1997.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA food assistance to Turkmenistan was limited to a PL 480 program which provided \$10 million for the purchase and transportation of approximately 40,000 metric tons of U.S. wheat. The objective of the program was to promote private-sector agribusiness development.

FY 1997 Assistance Programs: The economic and political reforms implemented by the Government of Turkmenistan during the past year provide openings for U.S. Government assistance to encourage and

contribute to further reforms. During the last few months of FY 1996, our embassy carried out a comprehensive reevaluation of U.S. Government assistance priorities in Turkmenistan. FY 1997 assistance will focus on the following priority areas: trade and investment, business development, democracy-building, and energy and environment. Our assistance program for Turkmenistan, which will emphasize targeted in-country activities, will be designed to have a significant impact on Turkmen institutions. Our embassy hopes to be able to provide long-term technical expertise in addition to short-term training. The Eurasia Foundation's new office in Ashgabat will administer a "Democracy Fund" small grants program, which will provide a mechanism with which to assist Turkmenistan's Institute for Democratization and Human Rights, as well as local nongovernmental organizations (NGOs). In the area of military cooperation, the Government of Turkmenistan and the Defense Department's Marshall Center would like to expand their current program to include civilian personnel from the Ministry of Defense, as well as personnel from the Ministry of Foreign Affairs, the Cabinet of Ministers, and the Turkmen Parliament. In April 1997, Turkmenistan will host the third Marshall Center regional conference on stability and security in Central Asia.

UKRAINE

The U.S. Government provided an estimated \$420 million in assistance to Ukraine in FY 1996. (This includes appropriated funds, as well as over \$85 million in donated humanitarian goods transported by the U.S. Government.) Ukraine's FY 1996 FREEDOM Support Act assistance budget was earmarked by the U.S. Congress at \$225 million, with an additional \$13.42 million in Defense Department surplus equipment and \$3.42 million in privately donated commodities supplied as humanitarian aid. In FY 1996, U.S. Government assistance to Ukraine focused on the development of a market economy, the establishment of an adequate social safety net, and the continuing evolution of democratic institutions. Cooperative Threat Reduction (Nunn-Lugar) funding helped Ukrainian defense enterprises convert to civilian production. Our principal technical assistance programs in Ukraine included those promoting privatization, energy-sector restructuring, financial-market development, the targeting of housing and energy subsidies, and business development. A major development in FY 1996 was the signing of a memorandum of understanding between the G-7 countries and the Government of the Ukraine on the closure of the Chernobyl nuclear power plant by the year 2000. This agreement established a policy framework for energy investments in the Ukraine that held out the promise of over \$2.5 billion in loan financing if energy reforms continue.

Political and Economic Overview: The replacement of Prime Minister Yevhen Marchuk by Pavlo Lazarenko in late May did not affect Ukraine's commitment to economic and political reform. In late June, the Supreme Rada (Ukrainian Parliament) ratified a new constitution which guarantees basic democratic freedoms and rights, including private property. It also defines more clearly the relationship between the executive and legislative branches of government and establishes a constitutional court. Many of the constitution's provisions were in the process of being implemented through the introduction of enabling legislation, some of which was submitted by the Ukrainian Government to the Rada during its fall 1996 session. Economic stabilization continued at an impressive pace, with Ukraine achieving its lowest rates of inflation since gaining independence in 1991. Ukraine stayed within the budget targets set by the International Monetary Fund (IMF), although politically and socially damaging wage arrears mounted as a result. In September, the Ukrainian Government successfully launched a new national currency, the hryvnia, which traded within a fairly narrow range. Ukraine's successful adoption of a new constitution and its continued economic stabilization helped set the stage for a new series of structural reforms announced in fall 1996. It is hoped that these reforms, which reduce and reform taxation, remove regulation and introduce a more realistic budget, will help spur economic growth and investment in Ukraine. If adopted, they will also help pave the way for additional assistance from international financial institutions. Unfortunately, however, several major U.S. investors experienced continued problems due to corruption and bureaucratic in-fighting.

Trade and Investment Programs: Under the Commerce Department's Special American Business Internship Training (SABIT) Program, 41 Ukrainians traveled to the United States for one- to three-month internships in the following areas: middle-management training, defense conversion, technical standards, financial services, environmental technologies and science. The Commerce Department's Business Information Service for the NIS (BISNIS) yielded over 350 specific trade and investment leads on Ukrainian enterprises and produced ten market-insight reports for U.S. companies on commercial and

investment conditions in Ukraine. A Commerce Department-sponsored American Business Center (ABC) was opened officially in late May and began functioning as both a business information resource and a logistical resource for U.S. companies entering the Ukrainian market. Seven U.S. companies rented offices in the ABC as launching pads for their activities in Ukraine. USAID-funded agribusiness partnerships focusing on the supply of agricultural inputs enhanced the market for U.S. agricultural chemicals and equipment, while simultaneously boosting production by 30 to 40 percent on participating farms. In addition, the Western NIS Enterprise Fund (WNISEF) provided lending and equity investments to small and medium-sized businesses in Ukraine.

USAID Support for Mass Privatization: In FY 1996, the Government of Ukraine, with USAID support, accelerated the privatization of medium- and large-sized enterprises. As of the end of FY 1996, approximately 3,500 medium- and large-sized enterprises out of a targeted total of 8,500 had been privatized under the USAID-supported mass privatization program that began in January 1995, with approximately 400 companies being privatized each month. Approximately 38,000 out of a total of 43,000 small enterprises had been privatized. Four U.S. Government-supported joint-venture agricultural service centers provided inputs and technology to over 900 farms, resulting in yield increases ranging from 38 to 120 percent. More than 33,000 households were participating in a U.S. Government-supported condominium conversion process in 20 Ukrainian cities. Self-sustaining Business Support Centers provided training, information and small-business loans in three cities.

USAID Land Privatization Programs: In addition to mass privatization, the Ukrainian Government worked to transform its land regulations through the implementation of free-market principles. Although there continued to be opposition to land reform, Ukraine made significant strides in this area. A new USAID-supported land-titling program followed on the heels of a successfully completed pilot program on land titling and registration, which established the methodology for legal title registration, developed Ukrainian-specific data handling procedures, and began registering land titles with the help of specialized computer software. The expansion of this activity, which started in October 1996, will facilitate the implementation of a World Bank title-registration loan, scheduled to be granted in June 1997, to fund titling equipment in approximately 100 regions of Ukraine. USAID assistance also tackled the issue of agricultural land reform in FY 1996. A pilot program in collective farm restructuring concluded, resulting in the dismantling of seven collective agricultural enterprises in two oblasts (regions), as well as model procedures to be applied during the expansion of the program to other parts of Ukraine. All seven farms completed the restructuring process, including the issuance of land certificates and property shares. This initiative also produced a farm restructuring manual which was tested on the seven pilot farms and is now available for use under the expanded program. In conjunction with the production of this manual, a team of more than 20 Ukrainian professionals was trained and is now fully capable of implementing future collective farm restructuring activities. Based on requests from several oblast (regional) government officials, this activity was expanded in late 1996 to restructure farms in up to 10 oblasts.

Peace Corps: In FY 1996, the Peace Corps' business development program in Ukraine consisted of 103 volunteers serving in educational institutions, governmental structures, business associations, and state-owned and cooperatively owned entities. (see Business and Economic Development Programs section below) An additional 74 Peace Corps volunteers taught English in Ukrainian secondary schools and pedagogical institutes. (see Training and Exchange Programs section below) In addition to their formal duties, Peace Corps volunteers were also involved in a wide range of community activities, working with various nongovernmental organizations, including women's groups, and working on sister-city projects. Examples of these activities included coaching and testing students for an English Olympiad and for the Freedom Support Act Competition; organizing and facilitating summer English language camps; establishing and editing schools and community newspapers; working with orphanages and orphans; establishing English language and American culture clubs; coaching students in American sports and organizing community sports competitions; and establishing a community-based business club for local entrepreneurs. In FY 1997, the Peace Corps will expand its program in Ukraine to include an environmental program and possibly a health program.

Business and Economic Development Programs: Financial-sector development and economic restructuring programs provided training and technical assistance to Ukrainian officials, private investment funds, trust companies and other businesses. With USAID-funded assistance, the interbank payment system of the National Bank of Ukraine became fully operational, and work continued on strengthening the financial infrastructure. Over 2,000 Ukrainian bankers had received U.S. Government-funded training by

the end of FY 1996. USAID-funded assistance also supported the development of an over-the-counter stock trading system which began operations in July with eight companies listed, as well as the establishment of independent share registrars. USAID-funded advisors worked with Ukraine's newly established Securities and Exchange Commission to help it develop its regulatory capacity and to help with the drafting of legislation on the regulation of the securities market. A simultaneously implemented financial-accounting reform initiative complemented USAID's capital markets activities by helping enterprises appropriately value their assets for more accurate listings on the stock exchange. U.S. Government-funded advisors helped the Ukrainian Ministry of Finance with budget preparation and modeling, and U.S. Government-funded macro-economic advisors helped the Ukrainian Government implement its economic reform program.

- **USAID Bank Supervision Programs:** USAID-funded advisors helped the National Bank of Ukraine build a bank-supervision infrastructure for both on-site and off-site supervision. Assistance was also provided in the areas of legal and regulatory reform, supervision of problem banks, and senior-level policy issues. This assistance enhanced the ability of the National Bank's supervisory unit by improving its organization, training methods, supervisory methodologies and use of human resources. Accomplishments included the publication of an on-site supervision handbook and the development of a an off-site supervision manual, a uniform bank performance report, improved rule-making procedures in the National Bank's legal department, problem-bank supervision policies and procedures, and recommendations for structural changes to enhance the effectiveness of the National Bank's supervisory unit.
- **USAID Pension Reform Assistance:** USAID-funded advisors addressed Ukraine's need for pension system reform by helping Ukrainian officials develop new pension-system alternatives with appropriate regulatory support and training for government officials. As of the end of FY 1996, a small private pension system had begun to emerge in Ukraine, and there were approximately 20 so-called private pension funds operating in Ukraine; however, there was no law regulating or establishing standards for such funds, nor was there much of an understanding of how to operate an effective pension system. USAID-funded assistance in this area included evaluating the adequacy of a pension law drafted by the Ukrainian Parliament and establishing a regulatory system for private pensions. Should this legislation be enacted, the Ukrainian Government will need extensive assistance to develop a regulatory structure to implement and oversee the new law. In order to increase their understanding of pension-system options, a group of Ukrainian officials was brought to the United States on a study tour on the U.S. pension system.
- **U.S. Department of Commerce - Commercial Law Development Program (CLDP):** In FY 1996, the CLDP's resident advisor on trade issues at Ukraine's Ministry of Foreign Economic Relations and Trade coordinated a series of short-term programs, both in Ukraine and the United States, involving U.S. Government and private-sector experts who consulted with over 100 Ukrainian officials on the following topics: trade-data collection (at the U.S. International Trade Commission), the enforcement of intellectual property rights (with the U.S. Patent and Trademark Office), government procurement, trade in financial services, technical barriers to trade (at the National Institute of Standards and Technology), anti-dumping and countervailing duties, and measuring government support for agriculture. (see also Economic Development Programs section in Part III)
- **Peace Corps Business Development Program:** In cooperation with the Agency for Coordination of International Technical Assistance (ACITA) of the Ukrainian Government's Cabinet of Ministers, Peace Corps business development volunteers facilitated the transfer of free-market business skills and expertise at various levels by working with current and future Ukrainian entrepreneurs, as well as with institutions such as schools, universities, banks, management institutes and government agencies at the national, regional and local levels. In FY 1996, 82 business development volunteers served in 34 communities: 35 percent of them worked with educational institutions, 29 percent with governmental structures, 26 percent with business associations and state-/cooperatively owned entities, and 10 percent worked on privatization initiatives. A group of 45 additional business development volunteers are expected to arrive in Ukraine in February 1997.

Eurasia Foundation Small-Business Loan Program: The Eurasia Foundation operated a pilot small-business loan program in Ukraine, which worked through local commercial banks to make loans to support small-business manufacturing and service-sector projects in regions where suitable financing was

otherwise not available. The loans, which were denominated in dollars and ranged from \$15,000 to \$100,000, were made for terms of one or two years and were secured with appropriate collateral. The program also provided training and technical assistance to partner banks with the goal of encouraging them to lend their own capital to small businesses over the longer term.

U.S. Department of Agriculture (USDA) - Emerging Markets Program (EMP): In FY 1996, the EMP continued to share U.S. agricultural expertise with Ukraine's agricultural sector, with the dual goal of improving the effectiveness of Ukraine's food markets and promoting U.S. agricultural exports. (see also Economic Development Programs section)

- **Agricultural Policy Advisor for Ukraine:** The EMP placed a U.S. advisor in the office of Ukraine's Minister of Agriculture in April 1994. As of the end of FY 1996, his major accomplishments included recommending an agricultural reform strategy that was adopted by President Kuchma in December 1995, and helping to coordinate U.S. and other Western agricultural assistance in Ukraine. USDA reviewed the status of the advisory position in April, and since the advisor had gained the full trust of the Ukrainian side, USDA decided to continue the position through April 1997.
- **Beef and Dairy Genetics Training:** Based on the findings of a dairy assessment mission in August 1995, USDA developed a program of short-term training and study tours to help technicians and administrators of Ukraine's livestock breeding centers, farms and institutes. The first training course, which focused on beef production, was conducted at the Main Selection Center in Pereyaslav-Khmelnytsky in September and involved 35 technicians and administrators from various regions of Ukraine. A second training course and two study tours to the United States will be conducted in spring 1997 and will focus on the beef and dairy industries. Plans are also being developed to establish a demonstration herd in Ukraine as a showcase for U.S. genetics and other agricultural inputs.
- **Seed-Sector Development Project:** Under this project, which is supporting a \$32 million World Bank loan to the Ukrainian seed industry, USDA sponsored a seed-sector development workshop in Kiev in May. The workshop was conducted by representatives of the U.S. private sector, the American Seed Trade Association, the Iowa State University Seed Science Center, the World Bank, and the Ukrainian Academy of Agricultural Sciences. The workshop, which discussed seed policy, legislation, variety registration, and seed-business development, was targeted at representatives of Ukraine's State Commission for Seed Testing, the State Plant Quarantine Office, regional plant breeding institutes and private seed companies. In FY 1997, USDA will provide training and technical assistance in the areas of seed health and phytosanitary issues, seed certification and plant-variety protection, and will help establish a seed trade association.

Training and Exchange Programs

- **USAID Training Programs:** In FY 1996, 692 Ukrainian professionals and policy-makers completed USAID-sponsored training programs aimed at developing skills relevant to a free-market democracy.
- **USIA Exchange Programs:** USIA sponsored academic and professional exchange programs for almost 700 Ukrainians. USIA also launched a new Community Connections program which is designed to foster linkages between U.S. and Ukrainian communities and will bring over 700 additional Ukrainians from 12 regions to the United States for programs with their U.S. counterparts
- **Peace Corps English-Teaching Volunteers:** The Peace Corps' English-language training program in Ukraine was developed in close cooperation with the Ministry of Education and responded to the needs identified by Ukrainian educators at all levels. Since January 1996, 74 Peace Corps volunteers have taught in 27 secondary schools and 14 pedagogical institutes in a total of 34 cities and towns. In addition to teaching English, these volunteers helped their Ukrainian colleagues improve their English fluency and gain exposure to Western-style teaching techniques and classroom activities. Since January 1996, over 3,000 Ukrainian secondary-school students have been taught by Peace Corps volunteers, and more than 900 future Ukrainian teachers of English received instruction from volunteers at Ukraine's pedagogical institutes. Peace Corps volunteers also helped Ukrainian teachers overcome their country's acute shortage of teaching materials by producing English-

language materials for schools and working to acquire textbooks and other language materials from U.S. publishers, organizations and institutes for use in Ukrainian schools and communities. Peace Corps volunteers facilitated the donation of over 50,000 U.S. books to Ukrainian libraries and schools.

USAID Democracy Programs: The USAID-funded Associates in Rural Development/Checchi (ARD/Checchi) Consortium and its subgrantee, the Ukrainian Commercial Law Project, continued to help the Ukrainian Parliament and President Kuchma's Administration to pursue a coordinated approach to drafting key commercial laws establishing a market-oriented commercial-law framework in Ukraine. U.S. Government-funded advisors also facilitated the establishment of computer-based systems to streamline municipal government operations. For the first time in Ukraine, an environmental advocacy group, having received support from USAID, successfully settled several cases involving violations of environmental laws.

- **Support for Ukraine's New Constitution:** The development of Ukraine's new constitution was supported by U.S. Government-funded technical assistance, including the organization of town meetings, support for a constitutional forum organized by Ukrainian lawyers, and the supplying of comparative materials on constitutional systems at the request of Ukrainian officials. The USAID-supported Ukrainian Association of Cities (see below) was asked by President Kuchma's Administration to help develop articles of the new constitution which decentralize state power and resources to local governments and define the relationship of local governments with the national government. Similarly, a USAID-funded roundtable discussion involving representatives of Ukraine's leading independent trade unions resulted in a clause on trade-union rights incorporated into the constitution. The new constitution will also facilitate legal reform related to the commercial code, bankruptcy, criminal justice, elections and private property. Following the adoption of the constitution, the U.S. Government helped fund the Ukrainian Government's public education program to introduce Ukrainians to the constitution by printing and distributing over 1 million copies to high-school students and others.
- **International Media Center (IMC):** The USAID-funded International Media Center (IMC) in Kiev provided expanded training to Ukrainian journalists, provided limited quantities of equipment to Ukraine's independent television stations, supported the producers of independent documentaries, and operated a press information center. An IMC-based group produced four live daily news programs for Ukraine's National Channel Two which were seen nationwide. IMC, which helped found Ukraine's largest national network of independent television stations, registered as a private entity and applied for a license to operate the first independent television channel in Ukraine. IMC also adopted a program for financial self-sustainability and began charging fees for the services it provides to journalists.
- **USAID Municipal Finance and Management (MFM) Program:** USAID's MFM Program continued to support the Ukrainian Association of Cities, a mayors' association with over 60 active members and a full-time executive director, which represents the interests of municipal governments before the Ukrainian Parliament. In Ternopil, the MFM Program continued to work with the municipal government to improve the city's bus service, resulting in a 40 percent increase in capacity, as well as increased revenues. At the request of the Ukrainian Government, key elements of this program, including a fleet-management and -maintenance software program, the establishment of a revolving fund for the purchase of spare parts and a program under which commercial space is offered in exchange for making structural repairs to bus stops, will be expanded to several other cities.
- **Congressional Research Service (CRS) - Parliamentary Development Program:** Since its establishment in September 1993, CRS's USAID-funded program in Ukraine has been providing technical assistance and training, automation and networking equipment, expert consultations and library materials to the Ukrainian Parliament's library and research service. Following the adoption of the new constitution in September 1996, the parliament's administration department failed to make the kinds of organizational decisions that could guarantee the success of the CRS program. The program's completion date was December 31, 1996.

Technical Assistance and Training: As of the end of FY 1996, a total of 845 members and staff of the Supreme Rada had participated in CRS activities (e.g., conferences, seminars, parliamentary

institutes and training courses), 462 of them in FY 1996. CRS sponsored a conference on parliamentary information technology in Kiev in November 1995, as well as a training conference for 33 Supreme Rada interns whose internships were sponsored by the U.S. Association of Former Members of Congress. A number of these interns subsequently became members of the Rada's staff. CRS also sponsored a number of U.S. study tours for the Supreme Rada's librarians, legal research staff and committee staffers. In addition, several CRS/Library of Congress experts traveled to Ukraine to conduct a training conference on the use of the Internet.

Equipment/Automation Assistance, Library Materials: CRS/Library of Congress staff and a CRS automation consultant ordered approximately \$72,000 in automation and office equipment and software for the Supreme Rada in FY 1996. A high-speed telecommunications link to the Internet was established through cooperation with the United Nations Development Program (UNDP). As of the end of FY 1996, the total value of equipment orders for the Rada under CRS's Parliamentary Development Program was approximately \$590,000. In addition, a CRS contractor worked full time in the Supreme Rada to help establish a reference unit and to help coordinate the services of the several libraries currently serving the Rada. The reference unit provides access to foreign-language materials, including books, periodicals, newspapers, CD-ROMs and the Internet, thanks mainly to CRS, which had ordered approximately \$65,000 in library materials as of the end of FY 1996.

- **U.S. Ukraine Foundation / Indiana University Parliamentary Assistance Program:** A USAID-funded Parliamentary Assistance Program (PAP) jointly implemented by the U.S.-Ukraine Foundation and Indiana University continued to help the Supreme Rada (Parliament) formulate a reform agenda, providing advice to parliamentarians on budget development and control, and helping to develop an auditing and control body within the Supreme Rada similar to the U.S. General Accounting Office.

Anti-Crime Training and Technical Assistance (ACTTA) Program: In addition to the law enforcement training provided under the State Department's ACTTA Program (see ACTTA section in Part III), the U.S. Department of Justice placed a legal advisor in Ukraine who will provide commentary on Ukraine's draft criminal code and new legislation and regulations to address money-laundering and financial fraud. The advisor will also develop procuracy training programs which will be integrated with ACTTA's law enforcement training activities. The Federal Bureau of Investigation (FBI) also established a new office in Kiev.

Energy Programs: In FY 1996, USAID-funded advisors helped Ukraine's energy sector to improve its energy- and market-efficiency, and to develop indigenous resources while simultaneously reducing emissions. In early April, a competitive energy wholesale market was introduced in Ukraine. Under these new market conditions, generating companies must now bid to sell power at a particular price on an hourly basis. With the help of USAID-funded advisors, the National Electricity Regulatory Commission issued licenses for the generators and the distribution companies, and efforts were made to develop an improved system of tariff collection and fund administration for Ukraine's electric-power industry. USAID-funded advisors completed energy audits in selected industrial plants and were providing U.S. equipment to help demonstrate the potential for near-term payback from low-cost energy-efficiency investments. Four enterprises in Donetsk received USAID-funded control- and monitoring equipment from U.S. firms, resulting in annual savings of over \$500,000 from a \$65,000 investment, as well as a sharp drop in emissions. A new \$317 million World Bank loan was approved which will provide support for the fuller implementation of market reforms and for improved tariff collection. USAID technical advisors helped to strengthen the capabilities of Ukraine's four thermal generating companies and the National Electricity Regulatory Commission to operate in this new market environment. A new electric-utility partnership was established between the Kentucky Public Service and DnieproEnergo.

U.S. Nuclear Regulatory Commission (NRC): The NRC's FY 1996 program achievements in Ukraine included the further development of a limited probabilistic safety assessment of the Rovno-1 nuclear power plant, which now identifies and evaluates additional potential accident sequences. The NRC continued to provide legal reviews, analyses and consultations on a draft law on protecting humans from radiation. Another significant milestone was the adoption by the Ukrainian Council of Ministers of a nuclear regulatory enforcement policy. As part of its efforts to develop the capacity of the Nuclear Regulatory Administration (NRA) of the Ukrainian Ministry of Environmental Protection and Nuclear Safety to train regulatory personnel, the NRC awarded a competitive commercial contract to acquire analytical simulators replicating VVER-1000/320, RBMK-1000 and VVER-440/213 reactor designs. To maximized

the program's cost-efficiency, the simulator contracts for Russia and Ukraine included a training component to enable the recipients of the simulators to perform limited software modeling to reflect specific plant characteristics. Under the NRC's institutional strengthening project, computers and associated equipment were provided to improve the NRA's ability to function efficiently. The NRC also provided assistance in root-cause analysis and event investigation, and held discussions with its Ukrainian counterparts on developing programs to address reactor-vessel structural integrity issues, including material degradation, embrittlement, neutron fluence and pressurized thermal shock. The NRC's cooperative efforts with Ukraine under the Joint Coordinating Committee for Civilian Nuclear Reactor Safety (JCC-CNRS) included continuing work with the National Cancer Institute and the U.S. Department of Energy in the development and implementation of epidemiological studies of the human health impacts of the accident at the Chernobyl nuclear power plant.

U.S. Department of Energy (DOE) - Chernobyl Initiative: In FY 1996, the Governments of the United States and Ukraine signed a memorandum of understanding establishing an International Center for Nuclear Safety, Radioactive Waste and Radioecology at Chernobyl. In addition to helping the Center develop a business plan, DOE helped it establish teleconferencing capability that will provide a stable communications link between Chernobyl and DOE's Pacific Northwest National Laboratory. Several projects were initiated under the auspices of the Chernobyl Center, including an evaluation of the impact of the collapse of the shelter on the operating Unit 3 reactor. In addition, a DOE resident representative was placed at Chernobyl to oversee and coordinate assistance activities. (see also Department of Energy - Nuclear Safety Programs section in Part III)

Security Programs: The Defense Department's Cooperative Threat Reduction (CTR) Program has a total budget for Ukraine of over \$396.2 million, of which \$299.4 million had been obligated as of mid-August. Almost two thirds of Ukraine's CTR resources have been devoted to the elimination of strategic nuclear arms. By the beginning of June, the landmark goal of removing all nuclear warheads from Ukrainian territory had been achieved. Among the work yet to be completed in accordance with the START treaty was nuclear-missile dismantlement and storage, as well as silo destruction. Other components of Ukraine's CTR program included the redirection of industrial and human capital from the production of weapons of mass destruction to peaceful ends, the control of nuclear materials and weapons technology, and emergency-response training. Also under the CTR project converting weapons production capability to provide production of housing for officers demobilized from the strategic rocket forces, 450 units had been completed and 410 were under construction. Other security-related assistance programs with Ukraine made significant progress over the year including the Science and Technology Center program. (see also Security Programs section in Part III)

USAID Environmental Policy and Technology (EPT) Project: USAID helped the Lviv Vodokanal (water utility) improve its services through the development of guidelines to identify, prioritize and address the operations, repair and upgrading of high-priority facilities in an efficient manner. USAID also supported a program to increase revenues and decrease costs while increasing the proportion of billings based on metered water use, and assisted with the creation of a strategic plan for the future institutional setup of the vodokanal. The Lviv Oblast (Region) administration allowed the Lviv Vodokanal to set tariff rates for all but residential customers, enabling the Vodokanal to respond more quickly to changes in energy costs and inflation rates (Ukrainian law prohibits vodokanals from independently setting tariffs for residential customers). In addition, the Vodokanal began to discuss reform options and to evaluate privatization and incorporation options. USAID also approved a plan to implement a locally sustainable and replicable demonstration project to create a water-distribution subsystem to improve water delivery. This project will directly improve water service to about 35,000 residents of Lviv and will demonstrate that relatively minor improvements in water-delivery infrastructure and system optimization (such as the creation of distribution subsystems, rather than massive capital investments in new water sources) can significantly improve water service. The first phase of this demonstration project was scheduled for completion at the end of November 1996, when a temporary pumping station with energy-efficient pumps was installed. A permanent pumping station is expected to become operational in mid-1997.

Health and Humanitarian Programs: In cooperation with the U.S. Centers for Disease Control and Prevention (CDC), USAID provided 32 million doses of adult diphtheria toxoid (Td) vaccine and related technical assistance to Ukraine's Ministry of Health to help control the diphtheria epidemic among young adults. With USAID support, Ukraine implemented a mass immunization diphtheria-control strategy, as a result of which the diphtheria epidemic showed signs of abating in Ukraine. In seven oblasts (regions)

which carried out mass immunization campaigns in 1995, the incidence of diphtheria for the first quarter of 1996 decreased by 80 percent from the first quarter of 1995. Nationwide, the incidence of diphtheria in Ukraine was 33 percent below 1995 levels. In addition, a neonatal resuscitation unit supported through USAID's Hospital Partnership Program saved 74 newborns in Lviv, while in Donetsk, a similar program helped decrease the length of hospital stays following births by 42 percent. Over \$17 million of U.S. Defense Department excess medical supplies were provided as humanitarian assistance, including an \$11 million shipment in April commemorating the 10th anniversary of the Chernobyl disaster.

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1996, USDA financed the purchase of \$20 million worth of soybean meal by the Government of Ukraine under the P.L. 480 Title I Concessional Sales Program. USDA encouraged the Ukrainian Government to invest in the revitalization of the country's agricultural sector, including farming, agribusiness and agricultural processing industries. Particular emphasis was placed on revitalizing the distribution and marketing of agricultural commodities. USDA also signed agreements for the distribution of humanitarian commodities in Ukraine by three U.S. private voluntary organizations (PVOs)—Lishkas Ezras Achim (800 metric tons), Agudath (1,000 metric tons), and GJARN (1,000 metric tons). The PVOs provided commodities to hospitals, orphanages, nurseries, and homes for the elderly. In addition, Citihope International implemented a program to monetize USDA humanitarian commodities, and will use the proceeds to provide loans and grants for small-business development in Donetsk.

USAID Housing Sector Reform Project (HSRP): Ukraine's new constitution reinforces the right of citizens to own private property, and in FY 1996, HSRP continued to support private-property ownership in Ukraine. Since 1993, 21 auctions in 14 cities have resulted in the sale or lease of 69 land parcels to private owners, raising \$1.7 million in revenue for the participating municipalities. In FY 1996, the cities of Poltava and Chernihiv implemented zoning regulations with the help of USAID-funded advisors, and in FY 1997, HSRP's zoning program will be introduced to several more cities, along with a pilot program to establish a market-based property taxation system.

Social-Sector Programs: As of the end of FY 1996, more than 4.5 million Ukrainian families had received assistance in paying their housing and utility payments through a USAID-designed targeted subsidies program. This program has enabled the Ukrainian Government to raise housing prices to 80 percent and energy prices to 80-100 percent of cost recovery, saving the government \$1 billion.

FY 1997 Assistance: The FY 1997 U.S. Government assistance program in Ukraine will have roughly the same features as the 1996 program. To the maximum extent possible, the program will incorporate areas of emphasis jointly identified by the U.S. and Ukrainian Governments through their consultations under the aegis of the binational commission chaired by Vice President Gore and President Kuchma.

UZBEKISTAN

In FY 1996, the U.S. Government provided approximately \$30 million in assistance to Uzbekistan. (This includes appropriated funds, as well as \$9 million in donated humanitarian goods transported by the U.S. Government.) Of this total, \$17.5 million was obligated for USAID technical assistance, the Eurasia Foundation's grantmaking programs, and the Central Asian - American Enterprise Fund (CAAEF). The main focus of U.S. Government assistance to Uzbekistan continued to be economic restructuring and democratic reform. Within the first area, primary attention was focused on fiscal reform activities. Tax-reform and budget-reform efforts were reaching maturity, with new laws ready to be enacted. In the area of democratic reform, primary attention was focused on promoting the development of a civil society in Uzbekistan by strengthening nongovernmental organizations (NGOs). The only humanitarian assistance provided to Uzbekistan by the U.S. Government in FY 1996 was in the form of U.S. Government-funded deliveries of privately donated humanitarian assistance, which included 250,000 doses of insulin provided by Eli Lilly.

General Overview: In FY 1996, Uzbekistan continued its efforts to carve out a more independent foreign policy and foreign economic policy. The Government of Uzbekistan signed a partnership cooperation agreement with the European Union and continued to expand trade and investment relations with the West. The Uzbek Government also sought to play a greater role in helping put an end to the civil wars in

neighboring Afghanistan and Tajikistan. At the same time, however, the government reiterated that it sought economic cooperation—rather than political integration—with its neighbors. President Karimov's June 1996 trip to the United States focused on the potential for greater economic cooperation between the two countries and included two conferences on business opportunities in Uzbekistan. In FY 1996, Uzbekistan continued to implement political and economic reforms at a deliberate pace.

Political Overview: A number of political prisoners were released in several different amnesties during summer 1996. President Karimov devoted almost his entire August parliamentary speech to the need for greater respect for human rights. One human-rights NGO was registered in spring 1996, although a second, the Human Rights Society of Uzbekistan, remained unregistered. At a human rights seminar sponsored by the Organization for Security and Cooperation in Europe (OSCE) in Uzbekistan in September, a wide range of speakers from Uzbekistan were allowed to participate, including several who were very critical of their government. The Government of Uzbekistan continued to demonstrate a receptive attitude towards some NGOs. The government began to work collaboratively with NGO representatives on a new NGO law in a United Nations-sponsored working group. In FY 1996, the Uzbek Parliament passed new civil, criminal, and criminal procedure codes, and was considering new laws on political parties and public associations.

Economic Overview: As noted in the October 1995-March 1996 report, Uzbekistan signed a standby agreement with the International Monetary Fund (IMF) in December 1995. Under the conditions of that program, the Government of Uzbekistan continued to reduce inflation sharply and kept the budget deficit under control through summer 1996. The country's 1996 inflation rate was on target to be less than half of the 1995 level of 113 percent. The parliament passed new laws governing the central bank, commercial banks, shareholder and consumer rights, and copyright protection. However, Uzbekistan's drive towards economic reform appeared to slow down during the second half of the year, as the government failed to take steps to improve the convertibility of the national currency. Uzbekistan's economy grew slightly in the first half of 1996, but poorer-than-expected cotton and wheat harvests complicated economic reform efforts. Nevertheless, Uzbekistan's trade and investment relations with the United States continued to broaden and deepen in FY 1996. Over the course of the year, the number of U.S. companies and joint ventures in Uzbekistan more than doubled to 67, and U.S. businesses active in Uzbekistan began organizing themselves into a local U.S. chamber of commerce.

Trade and Investment Programs: Two major objectives of U.S. Government assistance to Uzbekistan in FY 1996 were to promote trade ties between the United States and Uzbekistan and to help establish a legal and regulatory climate favorable to trade and investment in Uzbekistan. Late in FY 1996, the Government of Uzbekistan requested U.S. Government assistance in improving the country's customs service, protecting intellectual property rights (IPR) and applying for accession to the World Trade Organization (WTO).

- **U.S. Department of Commerce - ABC, SABIT Programs:** In late FY 1996, Counselor to the Department of Commerce Jan Kalicki led a delegation to Central Asia. In Uzbekistan, he participated in a ceremony formally opening an American Business Center (ABC) in Tashkent which had been operational since mid-May and had already collected \$15,000 in fees for business facilitation services which it had provided to over 30 clients. By the end of FY 1996, the ABC had helped more than 200 local Uzbek firms to search for U.S. partners. In addition, 14 Uzbeks participated in internship programs under the Commerce Department's Special American Business Internship Training (SABIT) Program.
- **Central Asian - American Enterprise Fund (CAAEF):** In FY 1996, the CAAEF continued to identify and support sound medium-sized and large projects at a rapid rate, with projects in Uzbekistan receiving the largest share of funding—\$22 million for 11 projects. The CAAEF's Small Loan Program also gathered speed, as affiliated local banks broadened their experience with and understanding of the credit process.
- **U.S. Trade and Development Agency (TDA):** In FY 1996, TDA provided partial funding of \$1 million for a feasibility study on the co-production of IL-114 and IL-76 aircraft in Uzbekistan using U.S. engines and avionics, and hosted a visit to the United States by President Karimov. TDA organized two conferences in conjunction with President Karimov's visit: one in Houston focusing on investment

opportunities in Uzbekistan's oil and gas sector, and one in Denver focusing on investment opportunities in the country's mining sector.

Business and Economic Development Programs: Another major objective of U.S. Government assistance to Uzbekistan in FY 1996 was to promote the development of a vibrant private sector by ensuring that it had a favorable environment in which to flourish. U.S. Government-funded advisors helped the Uzbek Government collect and manage its share of the country's resources in a manner which allowed the private sector to develop. USAID's Farmer-to-Farmer Program and the USAID-funded International Executive Service Corps (IESC) continued to bring in U.S. volunteer executives whose efforts were widely effective in promoting the growth of a private sector in Uzbekistan and, more specifically, helping Uzbek entrepreneurs prepare strong applications for support from the CAAEF. For example, a Farmer-to-Farmer wool-processing specialist helped one Uzbek entrepreneur prepare an application to the CAAEF for a loan to set up a wool-scouring plant which will employ up to 1,400 workers in the ecologically devastated Aral Sea region.

- **USAID's Fiscal Reform Project** continued to make progress in helping the Uzbek Government reform its tax and budget systems: a working group consisting of USAID-funded advisors and members of Uzbekistan's State Tax Committee worked together to finalize a draft tax code. Almost all of the important issues which had previously been raised by the USAID-funded advisors but had not been acted on by the Uzbek Government were satisfactorily resolved in the final draft of the code, which was submitted to the Uzbek Parliament in early FY 1997. A draft budget law was also completed and distributed for review outside the Ministry of Finance, as was a draft law establishing a treasury within the Ministry. This latter draft law was endorsed by the International Monetary Fund (IMF), which is providing an advisor to help the Ministry establish a treasury unit.
- In FY 1996, USAID also initiated a **Pension Reform Project**, which was already showing remarkable progress. In just eight months, USAID-funded advisors helped develop analytic tools which clearly demonstrated the urgent need to reform Uzbekistan's pension system, and they introduced their Uzbek counterparts to alternative models of pension systems. Their efforts culminated in a two-day workshop organized in collaboration with alumni of USAID's NIS Exchanges and Training (NET) Project (see below), resulting in widespread acceptance of the need to overhaul the country's pension system. Under the leadership of Uzbekistan's minister of social protection, workshop participants subsequently set out to establish a high-level inter-ministerial working group to expedite the process of reforming the system.

Training and Exchange Programs: In FY 1996, U.S. Government-funded training and exchange programs promoted reform in Uzbekistan by exposing Uzbeks to the day-to-day functioning of our democratic, market-based system.

- **USAID NIS Exchanges and Training (NET) Project:** In FY 1996, USAID's NET Project sent 114 Uzbeks to the United States for technical training and organized follow-on programs in Uzbekistan for 274 NET alumni. After participating in a NET program on pension-fund reform, some 20 employees of Uzbekistan's Ministry of Social Protection returned home and helped create an atmosphere conducive to reforming the country's pension system. Similar results were obtained through the interaction of NET training and follow-up programs with technical assistance provided under USAID's Fiscal Reform Project.
- **USIA Exchanges:** Over 100 Uzbeks participated in USIA academic and professional exchange programs. Four Uzbeks traveled to the United States under USIA's Fulbright Program and one under USIA's Humphrey Fellowship Program. USIA also sponsored two U.S. speakers: one on U.S. legislation and another on law and human rights. These speakers complemented USAID-funded assistance implemented by the American Bar Association's Central and East European Law Initiative (ABA/CEELI) in the areas of legislative and judicial reform.

Democracy Programs: In FY 1996, USAID grantee Internews continued its program of assistance to approximately 16 small local independent television stations. These stations quickly accepted the idea that they need to form a network, and asked for Internews's assistance in doing so. A program of U.S. Government-funded electoral assistance was initiated when the Government of Uzbekistan agreed to

allow a survey of voter attitudes to be carried out by the International Foundation for Election Systems (IFES), a USAID grantee.

Support for Nongovernmental Organizations (NGOs): In FY 1996, U.S. Government-funded democracy programs focused first and foremost on promoting the development of a civil society in Uzbekistan by strengthening the country's nongovernmental organizations (NGOs). The most significant development in this area was the progress made in reforming the legal environment in which NGOs operate in Uzbekistan. The USAID-funded American Legal Consortium (ALC) and the USAID-funded Counterpart Consortium successfully encouraged Uzbekistan's NGO community to develop an umbrella organization which can represent them in dealing with issues of common interest, particularly legal reforms affecting NGOs. Two members of the newly established NGO coalition were selected to serve with Uzbek Government representatives as part of a United Nations-sponsored working group on NGO issues, which subsequently prepared a new draft law on NGOs. ALC also completed its program of NGO-support grants, but will continue to work with the same advocacy NGOs through November 1997 (when ALC's grant ends) to ensure their self-sustainability. Meanwhile, Counterpart made grants totaling almost \$50,000, bringing the program's cumulative total to over \$266,000. Counterpart also trained a total of 304 NGOs in four different training courses. A new three-day course on NGOs and the media was successfully introduced in September, resulting in increased newspaper coverage of NGO activities in Uzbekistan.

- **American Bar Association - Central and East European Law Initiative (ABA/CEELI):** U.S. Government-funded legislative and judicial reform assistance increased significantly in May with the arrival of a second ABA/CEELI liaison, who began working on promoting an independent judiciary and private legal practice (the first liaison subsequently completed his tour of duty and left the country). The ABA/CEELI liaisons reviewed and provided detailed comments to the Uzbek Parliament on an increasingly wide range of important draft legislation, including laws on political parties and public health, whose final drafts reflected many of the liaison's comments. ABA/CEELI also organized a workshop on judicial ethics, after which Uzbekistan's senior judges convinced President Karimov to support publicly the establishment of an independent judiciary. The liaisons also began helping Uzbekistan's judges to establish a professional association.

Health Programs

- **USAID Medical Partnership Program:** A USAID-funded hospital partnership between Uzbekistan's Tashmi-2 Hospital and the University of Illinois at Chicago Teaching Hospital was chosen by Eli Lilly as the distribution channel for its donation of 250,000 doses of insulin, which will be used for pregnant women suffering from diabetes. Tashmi-2 passed the skills and knowledge gained from its partnership along to hospitals in Urgench in the ecologically devastated Aral Sea region. Also under the Tashkent-Chicago partnership, which focuses on obstetrics and neo-natology, a high-risk pregnancy center was created, based on modern perinatal models. The center identifies and treats women of child-bearing age who have pathologies that could impact their health and that of their children. The partnership is supported at the highest levels of the Uzbek Government: the Ministry of Health allocated \$200,000 to renovate the high-risk pregnancy center and create a model program to identify and treat high-risk pregnant women.
- **USAID Infectious Disease Programs:** In FY 1996, USAID-funded health-care assistance focused on improving the Uzbek Government's ability to cope with infectious and vaccine-preventable diseases. A breakthrough occurred when the Ministry of Health agreed to establish a center for immunoprophylaxis to manage all programs aimed at vaccine-preventable diseases. The absence of such a coordination unit had been delaying the provision of assistance through the USAID-funded Basic Support for Institutionalizing Child Survival (BASICS) Project in such areas as cold-chain management. USAID-funded advisors helped the Ministry of Health revise its national immunization plan. The U.S. Centers for Disease Control and Prevention (CDC) used USAID funding to install computer hardware and software in one region of Uzbekistan and in the Ministry of Health in order to improve the Ministry's capacity to monitor infectious diseases. The computers were installed after a two-week training workshop in Tashkent for about 70 people, including representatives from the other Central Asian republics. In addition, field work was completed for a USAID-funded demographic and health survey.

- **USAID Family Planning Programs:** USAID's health-related efforts also sought to increase access to modern, safe contraception, in order to improve the health of Uzbek mothers and children, which in turn will reduce the social and economic burden on the country's economy. USAID-funded advisors provided in-service and pre-service training, and helped promote commercial sales of contraceptives through privatized pharmacies. All training was conducted by Uzbek trainers with U.S. advisors providing only supervision and guidance. With the assistance of the USAID-funded Johns Hopkins Program for International Education in Gynecology and Obstetrics (JHPIEGO), Uzbekistan's Ministry of Health completed a set of guidelines for providers participating in a national family planning service that was formally launched in November.

Peace Corps: The impact of the Peace Corps' English language training and business development programs continued to increase in FY 1996. As of the end of FY 1996, there were 78 volunteers in Uzbekistan, 37 of whom completed their training and began their service in December 1996. In December, 14 new business development volunteers joined 15 who were already in their second year of service, and 23 new English-teaching volunteers joined the 17 volunteers who were already working in universities and secondary schools throughout Uzbekistan. By the end of FY 1996, a total of 48 schools and 7 universities had hosted Peace Corps volunteers, bringing more than 2,800 Uzbek students in contact with native English speakers. Meanwhile, requests for Peace Corps volunteers had tripled. English-teaching volunteers worked with Uzbekistan's English teachers to increase their professional capacity, organized an English-language immersion summer camp (involving 345 high-school students, 66 university students, 66 English teachers and 39 volunteers) with the support of the Government of Uzbekistan, and established additional English-language resource centers, of which there are now five. Meanwhile, Peace Corps business-development volunteers refocused their efforts on the teaching of business skills through a Junior Achievement program. Over 650 students received business training, and eleven teachers were trained in the use of Junior Achievement methodology and materials. In addition to teaching, Peace Corps volunteers helped business-oriented NGOs such as the Business Women's Association to strengthen their capacity to support micro-entrepreneurs, and helped develop student-run companies to give students hands-on experience in establishing and operating a business. In FY 1997, the Peace Corps will focus on stabilizing its diversified and rapidly growing business education and development program.

Eurasia Foundation: In FY 1996, the Eurasia Foundation awarded a total of \$353,000 in grants to various Uzbek NGOs for projects promoting economic reform and the development of independent media. The Eurasia Foundation also conducted a competitive grants program for print media, as a result of which five Uzbek newspapers received grants to support their projects.

Cross-Sectoral Small Grants: Mercy Corps International (MCI) used proceeds from the sale of U.S. Government agricultural surplus commodities to make \$1.8 million in grants and loans to a total of 154 projects in support of micro-enterprise development, private farming, health-related activities and democracy-building. Loans made to productive enterprises were in many cases repaid through in-kind charitable contributions to needy third parties; for example, bakeries donated bread to schools and orphanages. MCI also provided credit to farmers and artisans, which is to be repaid into revolving credit funds managed by the farmers' or artisans' associations to which the borrowers belong. MCI implemented these credit programs in collaboration with other assistance organizations such as Aid to Artisans and Winrock International (a USAID Farmer-to-Farmer Program grantee), which provided related technical assistance.

Aral Sea Initiative: In FY 1996, the U.S. Government continued its efforts to mitigate the immediate effects of the Aral Sea environmental crisis and promote regional solutions to the causes of the devastation. A study of the health risks associated with organic pollutants was carried out by the Centers for Disease Control and Prevention (CDC) under the Aral Sea Initiative. One result of the study was to verify that a significant amount of chlorine is present in the drinking water, thanks to USAID-funded upgrading at the region's water-treatment plants. With work at the two plants serving Nukus and Urgench having been completed, attention was turned to installing chlorination equipment at several pumping stations along the lengthy supply lines running from these two plants. As part of the public health component of the Initiative, Uzbek officials were trained in the development of community based health-education programs. USAID-sponsored regional workshops and meetings promoted regional cooperation in the management and use of water resources. As the engineering aspects of the Aral Sea Initiative wind

down in FY 1997, the focus on the sustainability of regional cooperation and water resources policy-reform will increase.

FY 1997 Assistance Programs: In FY 1997, a program of assistance will be developed in response to the Uzbek Government's strong appeal for assistance in the area of trade and investment, including the process of accession to the World Trade Organization (WTO). Early progress in the newly initiated pension reform program will justify expansion next fiscal year, pending the availability of funds. Similarly, the successful testing of a central bank training activity may also lead to a full-blown program in FY 1997. If the survey conducted by the International Foundation for Election Systems (IFES) is implemented successfully during the first half of FY 1997, it may be possible to initiate a broader program of assistance in electoral reform and civic education later in the year. In FY 1997, an effort will also be made to foster constructive relationships between the Government of Uzbekistan, the country's NGO community and the media.

III. ASSESSMENTS OF MAJOR PROGRAMS

The following section describes the objectives of the major regional U.S. Government-funded NIS assistance programs by category, summarizes their achievements and assesses their effectiveness. For additional information on program developments during the first half of FY 1996, please refer to the October 1995-March 1996 Semiannual Report.

TRADE AND INVESTMENT PROGRAMS

U.S. EXPORT-IMPORT BANK (EXIMBANK)

In FY 1996, Eximbank authorized \$809 million in final guarantee commitments to the NIS, accounting for a total of \$247 million in subsidies charged to Eximbank's appropriation. A breakdown by country is provided below:

<u>COUNTRY</u>	<u>AUTHORIZATION</u>	<u>SUBSIDY</u>
Russia	\$351 m	\$87.5 m
Kazakstan	\$98 m	\$21.2 m
Turkmenistan	\$109 m	\$41.3 m
Ukraine	\$171 m	\$66.9 m
<u>Uzbekistan</u>	<u>\$80 m</u>	<u>\$29.7 m</u>
TOTAL	\$809 m	\$246.6 m

As of the end of November 1996, Eximbank had a total exposure of \$2.7 billion in the NIS. Some \$1.8 billion in final and preliminary commitments had been authorized to help finance U.S. exports in support of the rehabilitation of Russia's oil sector. This financing is secured by the assignment of hard-currency export earnings, under firm offtake contracts. Most of these transactions had begun to disburse by the end of 1996.

Eximbank has a memorandum of understanding with the Russian gas company GazProm to provide support on a similar secured basis for U.S. exports to help revitalize gas production and transmission facilities in Russia. Approximately \$635 million has been authorized in final and preliminary commitments under this arrangement. As of early FY 1997, Eximbank was working on arrangements to permit continued financing for U.S. exports to Russia's oil and gas sector. Secured financing arrangements were also either under discussion or being implemented for the forest-products and fishing sectors, mining and other extractive industries.

In FY 1996, Eximbank also opened for business in Russia's private sector. Thus, in addition to the ongoing flow of relatively small transactions supported by Russian Government repayment guarantees, Eximbank will be in a position to broaden its activity in FY 1997 by supporting transactions backed by the guarantees or direct obligations of Russian banks. (The first such transactions were approved in December 1996.)

All of the other NIS transactions summarized above supported the export of U.S. equipment to the agricultural sectors of the recipient countries. Eximbank expects a substantial amount of financing to these markets to be secured by the assignment of hard-currency export earnings, similar to the arrangement in the case of Russia.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

In FY 1996, OPIC continued to provide political risk insurance to U.S. investors in order to mitigate the risks of overseas business ventures in the NIS, and OPIC's NIS insurance portfolio continued to grow. The demand for insurance was concentrated primarily in the oil and gas sector, telecommunications and mining. Russia continued to dominate OPIC's NIS portfolio, in terms of both aggregate insurance issued and the number of projects. However, OPIC's efforts to market its services in other parts of the NIS resulted in new projects in Central Asia. In FY 1996, OPIC provided insurance to 48 projects in the NIS,

representing \$828 million in assistance to U.S. companies and bringing OPIC's NIS insurance portfolio to a cumulative total of \$2.38 billion in coverage since the beginning of OPIC's NIS operations in FY 1992.

In its NIS operations, OPIC continued to cooperate with its bilateral and multilateral counterparts, including the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). In January 1996, OPIC and the Government of Finland jointly established the Finnish Guarantee Board-OPIC Investment Promotion Program, which is designed to assist U.S. and Finnish businesses with their joint investments in Russia, as well as in Estonia, Latvia and Lithuania.

In addition, OPIC committed to finance four projects in the NIS by providing \$308.5 million in long-term loans for four projects. These four projects, which are all in Russia, include a revolving credit facility, the renovation of an existing office building, a pollock fishing fleet and a gold mine. As of the end of FY 1996, OPIC had many additional projects in its "pipeline" which may be finalized in FY 1997 if political stability continues in Russia and structural reforms continue throughout the NIS.

U.S. TRADE AND DEVELOPMENT AGENCY (TDA)

The U.S. Trade and Development Agency (TDA) is a small, independent federal agency which as of the end of FY 1996 had funded 150 feasibility studies totaling over \$57 million in support of major infrastructure and industrial projects in the NIS. (A pioneer in providing assistance to the region, TDA signed its first NIS feasibility-study grant in 1992.) These 150 feasibility studies have leveraged export opportunities of more than \$5 billion for U.S. companies. As of the end of FY 1996, the volume of U.S. exports related to TDA's NIS feasibility studies funded from 1992 to 1994 exceeded \$300 million. The U.S. Export-Import Bank has issued a preliminary commitment supporting the export of an additional \$1 billion in U.S. goods and services, and along with the Overseas Private Investment Corporation (OPIC) is considering several other TDA-supported projects. Final approval of financing for these projects would result in a multiplier of over \$50 in U.S. exports for every dollar invested by TDA from 1992 to 1994.

As the NIS countries continue their transition to democratic, free-market systems, they are becoming a fast-growing export market for U.S. goods and services. In FY 1996, TDA obligated almost \$9.0 million on 23 feasibility studies for projects in the areas of oil and gas development, mining, electric-power generation, aviation, telecommunications and the modernization of air traffic control. Much of TDA's activity in the NIS has been concentrated in Russia; however, in FY 1996, TDA experienced a modest decrease in the number of new project proposals from Russian and U.S. companies, which can largely be attributed to the uncertainty caused by the Russian presidential elections. Despite this slowdown, TDA will continue to maintain an active program in Russia in FY 1997. In FY 1996, TDA also continued to become increasingly active in Armenia, Georgia, Kazakstan, Ukraine and Uzbekistan. (see also Russia and Uzbekistan country assessments)

ENTERPRISE FUNDS

As of the end of FY 1996, USAID had obligated a total of \$790 million, of which \$294 million had been obligated and \$173 million expended, in support of the regional enterprise funds created to promote private-sector growth in the NIS: the U.S.-Russia Investment Fund (TUSRIF), the Central Asian - American Enterprise Fund (CAAEF) and the Western NIS Enterprise Fund (WNISEF). A portion of this funding, \$50 million, supported two funds which are co-funded by the European Bank for Reconstruction and Development (EBRD): the G-7 Russia Small Business Fund (SBF) and the U.S.-EBRD Regional Venture Fund for the Lower Volga Region. As of the end of FY 1996, a total of over \$100 million had been invested by these five funds. In addition, the U.S. Congress has earmarked \$25 million in the Fiscal Year 1996 and 1997 appropriations bills for the creation of a new Trans-Caucasus Enterprise Fund.

The enterprise fund concept grew out of the U.S. commitment to help the indigenous private sectors of Central and East European countries beginning in 1989, and was extended to the NIS after the collapse of the former Soviet Union in 1991. The FREEDOM Support Act of 1992 extended the authority contained in the Support for East European Democracy (SEED) Act of 1989 for the creation of enterprise funds to the NIS.

The Enterprise Funds are designed to promote private-sector development, including small businesses, joint ventures and the agricultural sector, as well as policies and practices conducive to private-sector development. The Funds are authorized to provide loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, guarantees and other mechanisms in order to achieve these objectives. The Enterprise Funds have provided venture capital in situations where financial markets are still evolving and the business environment is so fragile that foreign investors are reluctant to commit funds to emerging small and medium-sized enterprises. The programs offered by the Funds range from venture capital to lending for micro-enterprises. The Funds have also assisted enterprises by providing limited technical assistance and training.

Trans-Caucasus Enterprise Fund (Armenia/Azerbaijan/Georgia)

In FY 1996, Congress earmarked \$15 million for the creation of a Trans-Caucasus Enterprise Fund for the purpose of promoting regional cooperation and private-sector development. In the recently passed FY 1997 Omnibus Appropriations Bill, an additional \$10 million was earmarked for the Fund. The Administration requested, and was granted by Congress in the FY 1997 Appropriations Bill, the authority to meet these earmarks through "investment in a Trans-Caucasus Enterprise Fund or in another fund established by a public or private organization, or transferred to the Overseas Private Investment Corporation (OPIC), to be available to subsidize the costs of direct and guaranteed loans, subject to the requirements of the Federal Credit Reform Act." These options are now being explored.

Central Asian - American Enterprise Fund (CAAEF) (Kazakstan/Kyrgyzstan/Tajikistan/Turkmenistan/Uzbekistan)

Established in August 1994 to promote the creation and expansion of small- and medium-sized businesses in Kazakstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, the Central Asian - American Enterprise Fund (CAAEF) got off to such a quick and promising start that its initial funding was increased from \$30 million to \$45 million in December 1994. In addition to establishing offices in all five Central Asian countries, the CAAEF set up a small-business lending subsidiary—the Asian Crossroads Loan Company—with assistance from South Shore Bank of Chicago. Since its establishment, the CAAEF has completed a total of 24 transactions in all five countries.

As of the end of November 1996, the CAAEF had approved \$44.9 million in loans and equity investments (above \$100,000 each) for 24 large enterprises in Kazakstan, Kyrgyzstan, Tajikistan and Uzbekistan. In addition, the CAAEF had also approved \$4.7 million in small-business loans for 55 small businesses in the region.

As of the end of 1996, the CAAEF's portfolio continued to be concentrated in Kazakstan and Uzbekistan, where the Fund's presence is already well-established and where roughly two-thirds of the region's population resides. The food processing and manufacturing sectors accounted for over 75 percent of the CAAEF's investment approvals.

DISTRIBUTION BY COUNTRY OF CAAEF LARGE-ENTERPRISE TRANSACTIONS

<u>Country</u>	<u>APPROVED</u>		<u>DISBURSED</u>	
	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>
Kazakstan	\$14.4 m	8	\$7.5 m	7
Kyrgyzstan	\$3.7 m	4	\$2.3 m	4
Tajikistan	\$ 0.4 m	1	\$0.4 m	1
Turkmenistan	\$ 0.0 m	0	\$0.0	0
<u>Uzbekistan</u>	<u>\$26.5 m</u>	<u>11</u>	<u>\$12.9 m</u>	<u>9</u>
TOTAL	\$44.9 m	24	\$23.1 m	21

The CAAEF's small-business lending subsidiary, the Asian Crossroads Loan Company (ACLC), made 55 small business loans, just over 80 percent of which were to the food processing, manufacturing and services sectors.

DISTRIBUTION BY COUNTRY OF ACLC SMALL-BUSINESS LOANS

<u>Country</u>	<u>APPROVED</u>		<u>DISBURSED</u>	
	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>
Kazakstan	\$1.99 m	19	\$1.39 m	16
Kyrgyzstan	\$0.62 m	10	\$0.35 m	8
Tajikistan	\$0.38 m	4	\$0.24 m	4
Turkmenistan	\$0.31 m	4	\$0.31 m	4
<u>Uzbekistan</u>	<u>\$1.37 m</u>	<u>18</u>	<u>\$1.13 m</u>	<u>17</u>
TOTAL	\$4.67 m	55	\$3.42 m	49

- **Employment Creation:** The Fund estimates that the investments approved through the end of May 1996 will result in the creation of between 600 to 700 new jobs. In addition, CAAEF investments helped secure the employment of others who were already working.
- **Demonstration Effect:** The CAAEF's investments have the potential to have a strong demonstration effect in the region, to both foreign and local investors. One of the CAAEF's investments are especially noteworthy in this regard. One is a completed \$3 million loan and equity investment in the Franklin Printing Company, which prints *Caravan*—one of the first private, local newspapers in Kazakstan—as and a number of other periodicals.
- **Strengthening of Financial Markets:** To date the CAAEF's involvement with the region's financial sectors focused on the negotiation of agreements with local banks in Kazakstan, Kyrgyzstan and Uzbekistan for participation in the CAAEF's small-business lending activities. The CAAEF is also interested in exploring other activities in the sector, including brokerage/dealing in securities.
- **Support for Joint Ventures:** The CAAEF Board approved an investment in a modern dairy operation in Kazakstan which would be a joint venture with Koch Industries from Kansas City. In addition, the Fund is involved in discussions with other foreign investors concerning possible joint ventures, including one involving the establishment of an oil refinery in Kyrgyzstan.
- **Attracting Additional Capital:** The CAAEF was actively engaged in discussions with private fund managers concerning the creation of a separate private fund that would be managed by and/or would receive investment advisory services from the CAEEF.
- **Profitability:** Although it is too early in the life of the CAAEF to measure its overall profitability, the prospects of financial returns from the Fund's initial investments are quite promising. The CAAEF's operating expenses are roughly \$5 million per year, or about 3.3 percent of its total authorized capital of \$150 million.
- **Promoting Policy Reform:** While the CAAEF's primary role is the direct promotion of private-sector development through loans and investments, the CAAEF has also promoted policies and practices conducive to private-sector development. In FY 1996, the CAAEF encouraged the convertibility of Uzbekistan's national currency, the cym; encouraged the region's governments to improve their commercial legal systems by introducing Western standards of company formation, registration, collateral, and other commercial documentation; advised the region's tax officials on ways to rationalize current tax regulations; introduced modern, Western banking practices through its small business lending program; and encouraged the privatization of state-owned property in the region.

The U.S.-Russia Investment Fund (TUSRIF)

The U.S.-Russia Investment Fund (TUSRIF) was created in April 1995 as the result of a decision by the Coordinator of U.S. Assistance to the NIS, Richard Morningstar, to consolidate the two existing enterprise funds for Russia—the Russian-American Enterprise Fund (RAEF) and the Fund for Large Enterprises in Russia (FLER)—into a single fund in order to achieve significant savings in operating costs—an estimated \$2.5 million. TUSRIF continued to implement a RAEF-initiated small business program that targets micro-enterprises for investment, and took on the RAEF's commitment to have at least \$40 million of investment

activity in the Russian Far East. In addition to its New York headquarters, TUSRIF has offices in Moscow, St. Petersburg, Rostov-on-Don, Yekaterinburg and Khabarovsk. As of November 30, 1996, TUSRIF had funded a total of \$5.6 million in loans to 67 small businesses, as well as \$45.9 million in direct financing. In addition, TUSRIF had made, but not yet funded, financing commitments of approximately \$100 million.

In FY 1996, Sun Brewing Limited was the flagship of TUSRIF's portfolio, representing an investment of \$10.5 million. In September, TUSRIF hosted a direct-investment conference in Russia and a small-business conference in St. Petersburg. Also in FY 1996, TUSRIF's Board of Directors gave its approval for management to proceed with negotiations with USAID that would lead to the establishment of a venture capital subsidiary to be capitalized at \$100 million. It is proposed that the venture capital subsidiary would raise one-third of its capital in equity form, with the balance funded through the issuance of debt with a guarantee from the U.S. Government.

Support for EBRD Enterprise Funds: In addition to TUSRIF, the U.S. Government also provided funding to two funds sponsored by the European Bank for Reconstruction and Development (EBRD) which also support the development of small and medium-sized enterprises in Russia. These two funds, the Lower Volga Regional Venture Fund (LVRVF) and the Russia Small Business Fund (RSBF) were created in response to a commitment made by the U.S. Government at the Tokyo G-7 Summit's Special Privatization Restructuring Session in July 1993. At that meeting, the G-7 nations, the Government of Russia and international financing institutions, including the EBRD, decided to establish a number of regional venture funds to support small to medium-sized enterprises in regions of Russia that are progressing in establishing economic and political reforms toward a market economy.

The Lower Volga Regional Venture Fund (LVRVF)

Since becoming operational in May 1995 with financial backing from the U.S. Government and the EBRD, the LVRVF has opened offices in three oblasts (regions): Volgograd, Samara and Saratov. Through a competitive bidding process run by the EBRD with USAID's assistance, management of the LVRVF was entrusted to HP Russia, a private fund-managing consortium formed by Hancock Venture Partners of Boston and Point Venture Partners of Pittsburgh.

Through a \$20 million grant from USAID, the U.S. Government funded the LVRVF's operating expenses and technical assistance expenditures, while the EBRD provided \$30 million in equity capital. The LVRVF will in turn provide equity capital to commercially viable medium- to large-sized enterprises (200 to 5,000 employees) emerging from the privatization process, as well as to other private, commercially viable ventures in the region. The LVRVF's investment committee has approved investments totaling \$6.7 million in three ventures: the Saratov Wallpaper Mill (\$1.3 million); the Povolzhe Brewery (\$3.2 million); and the wood-processing company Rolti (\$2.2 million).

The Russia Small Business Fund (RSBF)

At the Tokyo Summit in July 1993, the G-7 donors decided to create a Russia Small Business Fund (RSBF) to provide small and micro-enterprises in Russia with access to capital and technical assistance. Total projected funding for the RSBF is \$300 million, half of which will be provided by the EBRD, and the remainder of which will be provided by other G-7 nations, Switzerland and the European Union. The U.S. Government pledged to contribute \$30 million to the RSBF (through USAID) over the life of the project. The RSBF's activities include four components: micro-enterprise credit; small-business credit; small-business equity; and business advice and training, which support the former.

- **Micro-enterprise and small-business credit** are implemented through RSBF loans to commercial banks, which in turn lend the funds to micro-enterprises and small businesses. Twelve banks participate in the RSBF program, many of which are involved in several regions of Russia through their branch networks. The nine regions now covered include Tula, Nizhniy Novgorod, Tomsk, Novosibirsk, Samara-Togliatti, St. Petersburg, Yekaterinburg, Kemerovo and Moscow. Shorebank of Chicago is the EBRD's principal consultant on the RSBF's small-business credit program, while IPC, a German firm, provides expertise for the micro-enterprise credit program.

- **The RSBF's Small Enterprise Equity Fund (SEEF)** was active in Nizhniy Novgorod and St. Petersburg. The program is implemented by Small Enterprise Assistance Funds, formerly known as CARESBAC.
- **The RSBF's business advisory and training services** had been active in Tomsk, Tula and Nizhniy Novgorod, but are expected to be discontinued in the near future because of the availability of such services from a number of other sources.

OVERVIEW OF RSBF ACTIVITY AS OF 6/30/96 (EXCLUDING SUBLOANS)

<u>Component</u>	<u>Approved by EBRD & SEEF</u>	<u>Committed to Banks & SEEF</u>	<u>Disbursed to Banks & SEEF</u>	<u>Disbursed to Enterprises Total Value/Number of Projects</u>	
Micro Loans*	N/A	\$12.9 m	\$ 6.50 m	\$15.4 m	3,170
Small Loans	N/A	\$44.5 m	\$20.65 m	\$18.4 m	403
SUBTOTAL	\$ 98.8 m	\$57.4 m	\$27.15 m	\$33.8 m	3,573
Small Equity	\$ 15.0 m	\$15.0 m	\$ 0.76 m	\$0.658 m	11
TOTAL	\$113.8 m	\$72.4 m	\$27.91 m	\$34.46 m	3,584

* Micro-subloans exceed amount disbursed to banks because of re-lending of subloan repayments.

Western NIS Enterprise Fund (Ukraine/Moldova/Belarus)

The Western NIS Enterprise Fund (WNISEF) was established in August 1994 to support the creation and expansion of small and medium-sized private enterprises in Ukraine, Moldova, and Belarus through loans, equity investments and technical assistance. The WNISEF has been fully operational in the region since June 1995. The WNISEF has made substantial progress in developing investment opportunities in the region. The WNISEF has offices in New York; Kiev, Ukraine; and Chisinau, Moldova.

In FY 1996, the WNISEF's direct investment activities continued to focus on three sectors: agribusiness and food processing, construction materials, and furniture. As of the end of FY 1996, the Fund had approved 11 direct investments totaling \$12.5 million, of which \$7.9 million had been disbursed.

SECTORAL DISTRIBUTION OF WNISEF DIRECT INVESTMENT ACTIVITIES

<u>Sector</u>	<u>Committed</u>	<u>Disbursed</u>
Food Processing	\$7,185,000	\$2,585,000
Agriculture	\$3,080,300	\$3,080,300
Management Information	\$1,750,000	\$1,750,000
Construction	\$500,000	\$500,000
TOTAL	\$12,515,300	\$7,915,300

In June 1996, the WNISEF received a limited banking license to make loans in Ukraine. The WNISEF has allocated a large part of its resources to making investments between \$500,000 and \$5 million to small and medium-sized private companies. Through its small-business loan fund, the WNISEF has made available \$5 million for loans under \$100,000 to small businesses and entrepreneurs.

Through its small-business loan fund, the WNISEF had approved \$1.2 million in loans and provided over \$605,600 to 13 small companies as of the end of FY 1996. Projects were funded in the areas of printing, meat processing, retailing, flour milling and farming, with financing ranging from \$6,760 to \$92,000.

In FY 1996, the WNISEF established a Management Development Program (MDP) to provide financial and management systems to its investees and borrowers. UBS, the consulting group that will provide these systems, has become a fully operational subsidiary of WNISEF and an integral part of MDP. UBS helps MDP participants install management information systems, while volunteers from the USAID-funded International Executive Service Corps (IESC) provide marketing and operational assistance. The cost is

expected to be approximately \$200,000 for each participating company. As of the end of FY 1996, the WNISEF had provided MDP technical assistance to four of its investees and borrowers.

In September, the WNISEF hired a Belarusian citizen to serve as its representative in Minsk. The WNISEF expects to close an additional \$30 million in direct investments by September 1997, and to conclude negotiations with the International Finance Corporation (IFC) to leverage \$5 million in small-loan capital. The Fund also plans to hire Shorebank of Chicago to help develop a strategy for the small-business loan fund program.

Defense Enterprise Fund (DEF): (see Security Programs section in Part III)

U.S. DEPARTMENT OF COMMERCE - BUSINESS DEVELOPMENT COMMITTEES (BDCs)

The U.S. Business Development Committees (BDCs) established with Russia, Ukraine, Kazakstan and Belarus are the U.S. Government's primary vehicle for accelerating the growth of U.S. trade and investment with these countries, as well as facilitating their transition to market economies. Administered on the U.S. side by the Department of Commerce, the BDCs are effective because they are joint efforts which facilitate interagency coordination on both sides, and because they provide an opportunity for active participation by private-sector companies and organizations. Through programs jointly established with each counterpart country, the BDCs work to remove legal, regulatory and practical impediments to trade and investment; to facilitate the conclusion of commercial projects; to develop information and contacts in key industries and regions; and to create synergies between government and private-sector resources and initiatives.

The Commerce Department's BDC Initiatives (BDCI) Program supports programs and activities of the U.S. Business Development Committees with Russia, Ukraine, Kazakstan and Belarus which have a high potential of creating conditions for a significant expansion of U.S. trade and investment with a given country, often in specific industry sectors or regions. Programs and activities supported by the BDCI Program include consultations and negotiations, advocacy and support for specific commercial projects, seminars and training, studies and analyses, trade and investment missions, reverse missions and conferences. In the case of Ukraine, the BDCI Program supports the work of the U.S.-Ukraine Committee on Trade and Investment, one of four committees established under the binational Gore Kuchma Commission. The BDCI Program also supports efforts of the U.S. Ombudsman for Energy and Commercial Cooperation with the NIS to conduct a commercial dialogue with his nine NIS counterparts and expand bilateral trade and investment with the NIS countries. (see Belarus, Kazakstan and Russia country assessments)

Initiatives of the U.S. Ombudsman for Energy and Commercial Cooperation with the NIS: In FY 1996, commercial dialogues were deepened with Uzbekistan and established with Moldova, Armenia, Azerbaijan and Georgia during interagency missions led by the U.S. Ombudsman. These missions highlighted the importance of accelerated economic reform and regional economic cooperation for growth of trade and investment, especially in the energy and transportation sectors. The Ombudsman's visits to Moldova and the Caucasus in May and October 1996, respectively, were the first visits to these countries by a U.S. policy-level commercial official. In meetings with Moldova's president, parliamentary speaker and other officials, the U.S. Ombudsman encouraged Moldova to find creative ways to attract U.S. and other foreign companies to its markets. In meetings with leading officials of Armenia, Azerbaijan and Georgia, the U.S. Ombudsman urged the continued implementation of economic reforms, the creation of multiple export pipelines for oil and gas, and expanded regional cooperation on economic issues.

Seminars and Training in Trade Law and Practices: In March, the Standards Working Groups of the BDCs sponsored a U.S. orientation visit for senior-level standards officials from Russia, Ukraine, Kazakstan and Belarus, designed to introduce the officials to the U.S. standards system. This visit complemented U.S.-based internships provided to working-level NIS standards experts by the Commerce Department's Special American Business Internship Training (SABIT) Program.

USAID SUPPORT FOR ACCESSION TO THE WORLD TRADE ORGANIZATION (WTO)

Requests for assistance from the Russian and Ukrainian Governments have led USAID to help them in their efforts to accede to the World Trade Organization (WTO) and reorganize their trade regimes so that they may become active participants in world trade. USAID closely coordinated its activities in this area with the U.S. Department of Commerce and the U.S. Trade Representative. In FY 1996, USAID provided training and placed full-time advisors at the Ministries of Foreign Economic Relations of Russia and Ukraine on issues relating to the General Agreement on Tariffs and Trade (GATT). As of the end of FY 1996, 24 Russian and Ukrainian government officials had received training in GATT procedures and policies at the GATT Secretariat in Geneva. In FY 1997, additional Ukrainian officials and Georgian Government officials will be trained in Geneva. The training and long-term GATT advisors were supplemented by short-term advisors assisting with intellectual property rights, agricultural subsidies, trade and services, and trade data collection covered under the GATT. USAID-funded WTO/GATT accession activities were also being implemented in Kazakstan and Kyrgyzstan. During the summer, the required memorandum of foreign trade was submitted by the Government of Kazakstan to the GATT Secretariat. New USAID-funded WTO/GATT initiatives began in Armenia through the Center for Policy Research and Analysis (CEPRA) and in Georgia through the Center for Policy Analysis and Research (CEPAR). Armenia subsequently finished its second working party on GATT issues. Armenia hopes to accede to GATT/WTO by the end of 1997.

BUSINESS AND ECONOMIC DEVELOPMENT PROGRAMS

U.S. DEPARTMENT OF COMMERCE - BUSINESS INFORMATION SERVICES

Business Information Service for the NIS (BISNIS)

BISNIS was established in 1992, in response to the tremendous demand for information about the new emerging markets of the NIS countries. In FY 1996, BISNIS continued to give U.S. companies a decisive advantage over their international competitors via its clearing-house of commercial intelligence, while at the same time supporting the development of the emerging market economies of the NIS. The challenging commercial environment of the NIS provides U.S. companies of all sizes a unique opportunity to establish themselves in these potentially very lucrative commercial markets. BISNIS's "win-win" approach provides the U.S. and the NIS with mutually advantageous trade and investment benefits while supporting the development of viable commercial economies in the NIS.

As of the end of FY 1996, BISNIS had facilitated almost \$1.5 billion worth of export and investment transactions in the NIS by supporting U.S. companies interested in doing business with the NIS. In FY 1996, the market for U.S. exports in the NIS countries continued to grow: during the first six months of 1996, U.S. exports to the region increased by a dramatic 47 percent, while U.S. global exports increased by 8 percent. This past year, U.S. companies started directing their attention increasingly towards the outlying regions of Russia and the other NIS. BISNIS supported this trend by disseminating more information on trade and investment leads located outside of Moscow and St. Petersburg—with significant results. Together, the BISNIS *Search for Partners* and BISNIS *Trades and Tenders* (formerly *Commercial Opportunities*) publications disseminated 1,100 new trade and investments leads. As of the end of FY 1996, BISNIS clients had made over \$10 million in trade and investment transactions in the Russian Far East, \$114 million in Kazakstan, \$46 million in Tajikistan, \$117 million in Uzbekistan, \$100 million in Ukraine and \$1 million in Belarus.

- A mid-size U.S. food processing and manufacturing company attributed their \$6 million per year in exports to Russia to BISNIS's efforts in providing timely trade and investment information, which is readily accessible through the BISNIS fax retrieval system.
- Thanks to a trade lead published in the BISNIS *Commercial Opportunities* newsletter (now *Trades and Tenders*), a small U.S. company signed a deal to supply \$500,000 in construction and finishing materials to the Russian Far East. The first shipment was made in April 1996.

- A small U.S. health-care products company signed a contract worth \$1.15 million to deliver pregnancy tests to a Russian buyer. This is the third such contract for U.S. products signed by the Russian importer since being included in the *BISNIS Search for Partners and Trades and Tenders* publications. In addition, a reverse (in-bound) U.S. Department of Commerce medical trade mission supported by BISNIS enabled a small U.S. health technology company to export medical supplies worth \$11,000. A similar result occurred for another small U.S. health-care products firm, which exported goods worth \$22,000, and anticipates more sales in FY 1997.
- Thanks to information provided by BISNIS, a small U.S. telecommunications company acquired licenses worth \$145 million to provide cellular telephone services in three Russian regions and Uzbekistan. BISNIS also helped another U.S. telecommunications firm establish a successful joint venture with a Russian partner; to date, over \$7.5 million has been invested, with an additional proposal for \$7 million more.
- With BISNIS's assistance, a small U.S. company exported over \$80,000 worth of furniture and office supplies to the Russian Far East.
- With the help of BISNIS, a small Alaskan company exported over \$100,000 worth of meat products to the Russian Far East, and expects potential sales of \$500,000 in FY 1997.

In FY 1996, BISNIS continued to incorporate new technology to improve its client services:

BISNIS Fax Retrieval System: As of the end of FY 1996, 380 documents on trade and investment opportunities in the NIS were available through BISNIS's fax retrieval system. Advanced technology permits the system to be updated weekly with the latest information on trade and investment opportunities. In FY 1996, the system answered over 20,000 requests for documents.

BISNIS Online: In FY 1996, BISNIS Online—BISNIS's Internet homepage—disseminated over 520,000 documents on the commercial environment in the NIS, and increasingly became the backbone of BISNIS's dissemination efforts. Since its establishment in March 1995, BISNIS Online has grown dramatically: requests and inquiries have doubled. Users of the fast and economical BISNIS Online have 24-hour-a-day access to the latest in NIS trade and investment opportunities, telegrams from Commercial Service offices in the NIS, and other valuable informational resources. BISNIS Online users can search for, read or select a portion of the information before printing a copy. BISNIS Online reaches a very wide audience, thanks to the multiplier effect of BISNIS Online users electronically forwarding BISNIS information to their colleagues within their own organization. Both *Search for Partners and Trade and Tenders* are accessible through BISNIS Online, and disseminated a total of 1,300 new trade leads in FY 1996, during which both publications were accessed on-line 58,000 times. As of the end of FY 1996, more than 26,000 U.S. businesses had requested BISNIS's *Sources of Finance* through BISNIS Online. Among BISNIS Online's new features in FY 1996 was "point-and-click" access to information on specific states' exports to the NIS (accessed over 700 times during its first week of service), and to information about Russia's regions.

BISNIS E-Mail Broadcast Service: Established in FY 1995, BISNIS's E-Mail Broadcast Service allows BISNIS trade specialists proactively to provide U.S. businesses with real-time commercial intelligence, including late-breaking trade leads, opportunities and developments in the NIS, as well as to answer requests for additional information. As of the end of FY 1996, some 3,000 U.S. companies were utilizing this service, up from 500 in June 1996. Over 10,000 BISNIS E-mail messages were broadcast to U.S. businesses in FY 1996. *BISNIS Briefs*, a twice-weekly electronic newsletter established in FY 1996, provided updates on promotional events, trade and investment opportunities and the rapidly changing business environment in the NIS. As of the end of FY 1996, some 1,000 U.S. companies had requested this electronic bulletin, which gained an average of 30 new subscribers each week. Also new in FY 1996 was BISNIS's *Trade and Tenders*, an electronic, biweekly version of the former *BISNIS Commercial Opportunities* newsletter. As of the end of FY 1996, *Trade and Tenders* had transmitted approximately 300 time-sensitive trade leads to over 1,000 U.S. companies.

BISNIS International Trade Specialists/Overseas Network: The country-specific expertise of BISNIS's international trade specialists in the economies, commercial environments and industrial sectors of the NIS countries continued to be critical to the success of the program, as was the information transmitted to them by representatives of BISNIS's Overseas Network stationed at Commercial Service offices, U.S. embassies and consulates in the NIS.

BISNIS Publications

- In FY 1996, the popular monthly *BISNIS Bulletin* increased its coverage of issues of interest to U.S. companies engaged in trade and investment in the NIS, especially in the areas of finance, transportation, taxation, product certification and customs. The *BISNIS Bulletin* maintained comprehensive geographic coverage, highlighted specific industries and made the U.S. business community aware of relevant policy developments in the NIS. As of the end of FY 1996, over 25,000 U.S. companies were on the *BISNIS Bulletin's* mailing list, with an additional 55,148 downloading the publication through BISNIS Online.
- **BISNIS Search for Partners**, a monthly newsletter which lists NIS companies looking for U.S. partners and is accessible through BISNIS Online and the BISNIS fax retrieval system, is an excellent source of information for potential exports of U.S. goods to the NIS. *Search for Partners* fosters long-term business relations between U.S. and NIS companies: in FY 1996, approximately 79 percent of the NIS companies listing themselves in *Search for Partners* were contacted by one or more U.S. companies interested in doing business with them (on average, the NIS companies were contacted by 5 or more U.S. companies). *Search for Partners* published a total of 840 trade and investment opportunities during FY 1996.
- **BISNIS Trades & Tenders**, which replaced the former *Commercial Opportunities* newsletter, is available through BISNIS Online and the BISNIS fax retrieval system. *Trades and Tenders* publicizes sales opportunities financed directly by NIS enterprises, as well as numerous procurement opportunities financed by USAID, the World Bank, the European Bank for Reconstruction and Development (EBRD) and other bilateral and multilateral funding sources open to U.S. companies.

BISNIS Outreach Activities: In FY 1996, BISNIS hosted over 25 official delegations representing Azerbaijan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine. BISNIS supported hundreds of conferences by providing them with information promoting U.S.-NIS trade and established stronger connections with the embassies and visiting officials of the NIS countries, in many cases arranging meetings for them with interested U.S. companies. In addition, representatives from the NIS embassies were invited to set up individual display booths during the 1996 BISNIS Fourth Anniversary Open House. More than 300 U.S. companies attended the event, which was one of BISNIS' most successful promotional events ever.

- **BISNIS Small Business Initiative:** In collaboration with the U.S. Small Business Administration (SBA) and the Gore-Chernomyrdin Commission's Business Development Committee, BISNIS coordinated and supported a trade mission to Russia composed of 13 Washington, D.C.-based delegates to the White House Conference on Small Business—the first of its kind. The highly successful mission enabled the Administration to achieve its goal of promoting the development of the small-business environment in Russia. BISNIS held two briefings and provided informational resources for the mission's delegates, and worked closely with Russian officials to set up a series of meetings for the delegation.
- **BISNIS Training Program:** Through its training program, BISNIS establishes vital links with newly-appointed U.S. ambassadors and senior commercial officers destined for NIS posts. BISNIS provides a comprehensive briefing on information collection and exchange, as well as on the distribution of commercial trade leads and tenders. Thanks to these links, BISNIS is able to contribute to the coordination of U.S. assistance efforts in the area of economic reform.

Awards and Achievements: In FY 1996, BISNIS was nominated for the Hammer Award for Customer Service, which is Vice President Gore's way of recognizing significant contributions in the context of the President's National Performance Review. In addition, BISNIS Online received Point Communications' "Top Five Percent" award for the quality of its homepage, as well as recognition from Russia Alive as one of the world's top Russia-related sites on the World Wide Web.

Business Information Service for Trade with America (BISTA)

In July 1994, the Russian Ministry of Foreign Economic Relations (MinFER) asked the U.S. Department of Commerce to help it establish a Business Information Center within the Ministry. As a response to this request, BISTA was opened in FY 1996 with U.S. Government assistance, to help Russian companies do business overseas and find partners in the United States. BISTA offers twenty different services to its clients, ranging from providing addresses to helping develop business plans. During the January-September period, BISTA handled 2,014 phone inquiries and 524 letters, faxes and e-mails; and provided 1,301 in-house consultations. In March, the U.S. Commercial Service Library in Moscow was transferred to BISTA. From its opening in April 1996 to the end of FY 1996, the BISTA Library had served 208 visitors. BISTA is listed on the BISNIS Online homepage (see above), which allows Internet users an opportunity to send requests directly to the BISTA office in Moscow.

From August 1995 until BISTA's grand opening in February, BISTA staff participated in training organized by BISTA contractor Deloitte & Touche. In February, BISTA's grand opening brought over one hundred representatives of local companies and government officials to the BISTA office, which was subsequently featured in *BIKI*, the newspaper of Russia's Ministry of Foreign Economic Relations (MinFER), *Moscow Business News*, and on the radio program "Mayak." In March, BISTA sponsored a conference for Russia's 99 regional MinFER representatives, focusing on cooperation and sources of information available to the representatives. BISTA also participated in a USAID-sponsored business development conference in Sochi in May, at which BISTA staff conducted outreach and informed the Russian business community about the services offered by BISTA.

In FY 1996, BISTA signed an agreement with the Russian Trade Representation in the United States on cooperation in gathering information on trade leads, due diligence investigations, and the business environment in the United States. By giving BISTA access to information gathered by the Russian Trade Representation, this agreement has enabled BISTA to provide better information on U.S. trade opportunities to Russian entrepreneurs. In addition, BISTA signed an agreement with Dun & Bradstreet to conduct due diligence investigations requested by BISTA customers, as well as a memorandum of cooperation with the USAID-funded Business Development Centers operated by Deloitte and Touche in Russia, for whom BISTA will serve as an informal hub for the distribution of information.

In FY 1996, BISTA published four issues of its newsletter, the *BISTA Information Bulletin*, which focuses on trade with the United States and frequently features U.S. companies seeking NIS partners. The *Bulletin* is distributed to regional offices of MinFER and to Russia's regional governments. BISTA also produced surveys on various sectors of Russian industry, and distributed business publications published by the Moscow Government Information Company (MosVneshInform).

U.S. DEPARTMENT OF COMMERCE - AMERICAN BUSINESS CENTER (ABC) PROGRAM

The Commerce Department's American Business Centers (ABCs) promote the expansion of U.S. trade and investment in the NIS, with a special emphasis on small and medium-sized U.S. firms, by providing them with in-country business development and facilitation services. These services include international telephone, fax, e-mail and photocopying facilities; short-term office, carrel, conference-room, and computer-equipment rental; interpretation, translation and secretarial services; seminar, conference and trade exhibit planning; hotel and travel arrangements; business appointment scheduling; market research; and business counseling. The ABCs' outreach activities also enhance the long-term viability of NIS firms as trade and investment partners for U.S. firms by increasing their familiarity with Western business practices. By the end of FY 1996, the thirteen ABCs had served over 1,600 U.S. business clients.

Three additional ABCs were officially opened in FY 1996: one in Kiev, Ukraine (in late May); one in Almaty, Kazakstan (in late September); and one in Tashkent, Uzbekistan (in early October), each with the participation of senior-level business and government representatives from the United States and the

respective host country. For its grand opening, the Kiev ABC organized a small-scale trade exhibit, in which seven U.S. companies representing industry sectors including food processing and long-distance telecommunications displayed their goods and services. In addition to these three new ABCs, the Commercial Service (CS) also operates two ABCs on-site in St. Petersburg and Vladivostok, Russia. Eight other ABCs are being operated by private-sector entities in cities where there is commercial potential, but no Commercial Service (CS) presence: Chelyabinsk, Khabarovsk, Nizhnevartovsk, Nizhniy Novgorod, Novosibirsk, Volgograd, Yekaterinburg, and Yuzhno-Sakhalinsk, Russia.

With all of the ABC sites having become operational, the Commercial Service shifted its focus towards supporting the ABCs in their drive to attain self-sustainability. The CS continued to provide support in the form of increased marketing and outreach efforts, as well as administrative support. Updated ABC brochures were printed, and over 1,400 were sent to 88 CS district offices in the United States, as well as to commercial officers at 46 U.S. embassy posts in the NIS, Europe and Asia. The ABC Program also implemented a comprehensive domestic and European advertising strategy reaching over 800,000 readers. BISNIS advertisements appeared in the *Russian Review* (formerly *Moscow Times International*), in the magazines *Russian Life*, *Business Links*, the *London AmCham Journal*, a travel book *Russia Survival Guide*, and the trade newsletters *Russian Commerce News*, *New Markets in the NIS & Eastern Europe*, *BISNIS Bulletin* and *Russia Business Watch*. The three ABCs in the Russian Far East (RFE) collaborated to produce a promotional brochure to distribute at trade events and on-board Alaska Air Lines flights to the RFE.

In late May, the American Business Centers and the London office of the Commercial Service hosted a conference in London on opening markets in Russia and the NIS, in cooperation with the American Chambers of Commerce in the United Kingdom and Russia. Delta Air Lines, Transaero Airlines, KPMG Management Consulting, AT&T, Gulfstream International and RR Donnelly Europe were the conference's corporate sponsors. The conference brought together valuable market-information resources for U.S. companies based in Western Europe and provided a forum for government-to-business and business-to-business networking.

In order to monitor progress toward self-sustainability, the ABC Program office designed an expenditure and revenue profile sheet for each of the ABCs, which includes a series of financial health indicators and other monitoring data. The profiles are updated quarterly and are shared among the ABCs. The program office also continued to address the implementational issues surrounding the ABC in Minsk, Belarus, which was suspended from incurring any reimbursable expenses, pending the release of the Commerce Department Inspector General's (IG) final audit report (which took place in May). In response to the IG's finding that there were deficiencies in the financial management and related internal control systems of Americom, the grantee operating the Minsk ABC, the Commerce Department proposed to terminate the award by mutual consent, and in late August, the grants office notified the grantee that the grant will be terminated within 30 days of receipt of the letter. In December, the Department decided to deobligate the \$670,000 balance in the Minsk ABC's budget; the funds will instead be allocated to extend the operations of Commercial Service co-located ABCs which experienced start-up delays, and, through a competition limited to current grantees, to support the operations of the privately operated ABCs for an additional twelve months.

In July, Professional Business Services, Incorporated, which operates the ABC in Khabarovsk, unexpectedly announced its intention to withdraw from the program before the term of its contract ends on September 30, 1997. Because Khabarovsk is such an important commercial center in the Russian Far East, a proposal sent by the Foundation for Russian-American Economic Cooperation (FRAEC) for a new cooperative agreement to operate the ABC in Khabarovsk was approved, and FRAEC assumed full grant-management responsibility on October 1, 1996.

DEPARTMENT OF COMMERCE - CONSORTIA OF AMERICAN BUSINESSES IN THE NIS (CABNIS)

The Consortia of American Businesses in the NIS (CABNIS) is a matching-grant program designed by the U.S. Department of Commerce to strengthen the commercial presence of U.S. firms in the NIS. CABNIS has issued matching-grant awards of approximately \$500,000 each to twelve U.S. nonprofit organizations which are helping for-profit U.S. companies enter the markets of the NIS countries, while at the same time working to enhance private-sector development in the NIS. The CABNIS consortia represent the

commercial interests of hundreds of U.S. firms looking to initiate or expand their business activity in the NIS. CABNIS consortia have established commercial offices in Russia, Ukraine and Kazakstan, and several grantees plan to establish satellite offices in other NIS countries. Among the industries represented by the CABNIS consortia are agribusiness, biotechnology, coal, environmental technology, food processing, information systems, modular housing, semiconductors, and telecommunications.

The CABNIS award recipients have formed consortia of U.S. firms interested in doing business in the NIS, and are using CABNIS seed money over a three-year period to support these consortia and to establish and operate NIS-based commercial offices for them. On the ground, consortia staff provide a wide range of export facilitation services tailored to meet the needs of U.S. exporters. In addition, the consortia staff work with government officials, entrepreneurs, trade and professional associations, and academic institutions in the NIS countries to develop meaningful business relationships, develop early commercial intelligence on new trade and investment opportunities, participate in the development of local industry and product standards, and promote state-of-the-art U.S. technology.

The CABNIS consortia have facilitated more than \$50 million in U.S. business in the program's first three years, and at the end of FY 1996, substantial additional business transactions were in the development stage. Participation in a CABNIS business consortium enables U.S. firms to pool their commercial expertise and other resources to gain a competitive edge in the NIS. In this way, CABNIS provides an avenue into the complex and evolving NIS markets for U.S. companies—particularly small and medium-sized enterprises—which would be unwilling or unable to take on the risk of entering these markets alone.

In addition to providing export-focused services to their U.S. members, CABNIS consortia have developed effective relationships with counterpart organizations and entrepreneurs in the NIS. The CABNIS consortia have organized a wide variety of commercial and technical events that bring together U.S. and NIS entrepreneurs and scholars on a frequent basis. Such activities help establish strong and lasting U.S.-NIS business relationships.

The activities of the twelve CABNIS consortia are summarized below:

- In cooperation with the Biotechnology Industry Organization (a U.S. trade organization), Virginia Commonwealth University (VCU) has formed a consortium of U.S. biotechnology firms to promote private commercial activity in biotechnology between the United States and the NIS. The consortium, Life Sciences Commercial Gateway (LSCG), has opened offices in St. Petersburg and Moscow, Russia. LSCG emphasizes the following trade facilitation services: marketing (including research; promotion; representation of U.S. industry interests in the areas of licensing, regulations, import and export controls; and evaluations of NIS biotechnology), strategic services (including legal assistance, training for Russian Government regulators of the biotechnology industry; and assistance with doing business in the NIS), and traditional business services. LSCG is also pursuing a variety of private-sector development activities in the NIS, and has built strong ties with Russian scientific organizations.
- The American-Russian Technology Association (ARTA), which has extensive trade experience in the NIS, has opened an office in Moscow to promote the sale of U.S. electronics, particularly computers and telecommunications equipment, to the NIS. Through its trade representation services, ARTA promotes and markets the products of its U.S. member firms. ARTA's services include organizing technical marketing and investment seminars, hosting formal buyer/seller visits to Moscow, producing trade directories and displaying U.S. products. In addition, as of the end of FY 1996, ARTA was in the process of identifying prospective joint-venture projects related to the conversion of the high-technology industries (including defense) of the Moscow Oblast (Region) in Russia.
- A CABNIS consortium established by the Port Authority of New York & New Jersey (PANY&NJ) has established its headquarters in St. Petersburg, Russia. The consortium assists its U.S. member firms by providing market research and export promotion services, representing its members in sales negotiations, developing joint ventures and seeking new market opportunities. To support private-sector development, the consortium offers courses in Western business practices to Russian entrepreneurs. Connecticut State University is now working in conjunction with PANY&NJ.

- The CABNIS-supported Food Industries International Trade Council (FIITC) was formed by the Food Processing Machinery and Supplies Association (FPM&SA) and the National Food Processors' Association. FIITC's Moscow office has organized meetings and transportation for visiting representatives of member firms, provided trade leads, conducted research and market studies, informed the FIITC-Washington office of changes in legislation, and advised on the political and economic situation in the NIS. FIITC has compiled a database of Russian food processors interested in purchasing U.S. products, as well as a guide to U.S. food industry firms interested in conducting business in Russia. In addition, FIITC has helped generate over \$30 million in U.S. exports to the NIS.
- Through its Moscow headquarters, the Telecommunications and Electronics Consortium in the NIS (TEC-NIS) offers trade facilitation services to U.S. companies interested in expanding their operations in the region, providing TEC-NIS members with high-level industry and government contacts, market-research studies, referrals to financial and technical support organizations, industry seminars, a TEC-NIS membership directory, and other essential business services.
- The American Building Products Export Council/Home Builders' Institute (ABPEC/HBI) consortium helped a member firm obtain U.S. Trade and Development Agency (TDA) funding to conduct a feasibility study of a U.S.-Russian joint venture near Cherepovets in Western Russia. The consortium member plans to cooperate with two Russian plants to produce windows, doors and plywood products. ABPEC/HBI estimates that the project, if successfully implemented, will generate a transfer of \$30 million in U.S. equipment and technology.
- The CABNIS-supported consortium Partners in Economic Reform (PIER) has been working to foster the development of a standards-coordination agreement between U.S. and Russian mining equipment certification authorities. As of the end of FY 1996, the two sides had a working agreement, which was expected to facilitate the process of obtaining Russian certification for U.S. mining equipment.
- Ecotech, a consortium established by the American Graduate (Thunderbird) School of International Management, successfully facilitated the sale of \$47,000 worth of the bio-remediation agent FyreZyme. As of the end of FY 1996, FyreZyme was the only U.S. bio-remediation agent certified for use in oil-spill clean-up projects in Russia, thanks to the consortium's facilitation efforts on behalf of Ecology Technologies International, a small, Arizona-based consortium member. The certification of FyreZyme for export to Russia resulted in the export of several tons of the bio-remediation agent, with additional sales anticipated.
- In FY 1996, U.S. members of the CABNIS consortium Semiconductor Equipment and Materials International (SEMI) signed contracts to supply semiconductor production equipment totaling nearly \$12 million to a Russian manufacturer of semiconductor devices.
- In FY 1996, the American Consortium of Information Systems Technology (ACIST), a CABNIS-supported consortium established by the World Trade Center Association of Orange County, was in the process of developing a World Wide Web homepage called CYBERussia, which ACIST plans to turn into the definitive directory of the information-systems industry in the NIS. CYBERussia will contain profiles of each member of ACIST and will enable users to link to the members' individual homepages.
- TROIKA, a consortium established by the World Trade Center - Alaska, facilitated the sale of \$24,000 of ice cream to Khabarovsk on behalf of a small, Alaska-based firm, the Alaska-Russia Company. In addition, TROIKA helped three firms based in California, Washington and Alaska, respectively, to export a total of \$108,000 in food products and consumer goods to Khabarovsk, Russia. The resulting consortia-facilitated business relationships are expected to lead to additional sales in the future.
- The CABNIS-supported consortium American Agribusiness Equipment (AgEquip) facilitated the sale of U.S.-manufactured bag-in-the-box filling equipment and packaging supplies to a Moldovan winery. By coordinating the various elements of this transaction, AgEquip attracted potential new U.S. members to its CABNIS consortium. AgEquip's other export-development activities focused on

Russia and Kazakstan, where AgEquip representatives generated approximately \$70,000 in sales for U.S. consortium members.

U.S. DEPARTMENT OF COMMERCE - COMMERCIAL LAW DEVELOPMENT PROGRAM (CLDP)

Since its establishment in October 1995, the Commerce Department's Commercial Law Development Program (CLDP) has been providing technical assistance to the Governments of Russia and Ukraine to facilitate their accession to the World Trade Organization (WTO). The CLDP helps fulfill President Clinton's pledge to help the NIS countries make the transition to market-based economies and to help them become members of the international trading community.

Countries acceding to the WTO must become signatories to 25 different agreements flowing from the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). These agreements cover a range of issues in addition to tariff concessions, such as agricultural subsidies, import-licensing requirements and the protection of intellectual property rights (IPR). In signing and abiding by these agreements, Russia and Ukraine will make their trade-policy formulation more transparent, and will provide greater legal protection to U.S. businesses trading and investing in the two countries. WTO accession is typically a multi-year process. As of the end of FY 1996, both Russia and Ukraine were in the process of supplying information to the WTO Secretariat and its working groups handling each country's accession process, both of which convened in December 1995 and late spring 1996.

In November 1995, the Department of Commerce, in collaboration with the U.S. Judiciary, hosted a first-of-its-kind seminar in Washington on the enforcement of intellectual property rights for officials from Russia and Ukraine. Seminar presenters included officials from many U.S. trade organizations, including the Motion Picture Association of America and the International Intellectual Property Alliance. (see also Russia and Ukraine country assessments)

USAID NEW BUSINESS, SMALL BUSINESS, AND MICRO-BUSINESS DEVELOPMENT PROGRAMS

In FY 1996, USAID's small-business development programs in the Western NIS focused on the development of local small-business support organizations in Lviv, Kharkiv and Odesa in Ukraine, and Chisinau in Moldova. These centers sponsored conferences, seminars, business consulting, training and direct assistance in areas such as new product development, market segmentation, and business plan development, and helped current and potential business managers run their businesses better. After receiving assistance from these centers, several entrepreneurs were able to secure business loans from the Ukraine Loan Program of the European Bank for Reconstruction and Development (EBRD). Through a grant made to the International Finance Corporation (IFC) by the British Know-How Fund, four other business-support centers were opened in FY 1996.

A second focus of USAID's small-business development programs in FY 1996 was providing access to credit for new entrepreneurs or newly privatized businesses. The Western NIS Small Business Loan Fund completed nearly 14 leases totaling approximately \$600,000, with an average lease size of about \$50,000. The leases funded equipment such as tractors, bread ovens and presses, which helped the recipient businesses increase their productivity. A grant to the World Credit Union Council helped establish a National Association of Ukrainian Savings and Credit Unions (NAUSCU), whose mission is to promote legislation that supports and protects credit-union development in Ukraine, and to provide training and services to its 100 member-organizations. (see also Kyrgyzstan and Russia country assessments)

USAID PRIVATE SECTOR INITIATIVES / FINANCIAL AND ECONOMIC RESTRUCTURING PROGRAMS

In FY 1996, USAID continued to play an integral role in developing free-market economies in the NIS. USAID's Private Sector Initiatives and Financial and Economic Restructuring Programs worked together to promote the formation of private sectors founded on the principles of private ownership and the free exchange of goods and services. Combining these two programs and their components facilitated the development of an overall approach to promoting market reform approach, underlining the fact that these

initiatives are not merely stand-alone activities, but are integral parts of a broad-based strategy for building free-market economies in the NIS. As of the end of FY 1996, USAID had obligated a total of \$977.8 million, including \$148.3 million in FY 1996, and expended a total of \$787.6 million for these activities.

Privatization Programs

In FY 1996, USAID's privatization activities were concentrated on implementing policies and effecting transactions to move state-owned assets into the hands of private owners. USAID-funded advisors facilitated this process by implementing mass privatization voucher-distribution programs, organizing auctions of large enterprises, and promoting small-scale privatization. USAID-funded activities in the areas of de-monopolization and land privatization, as well as related public education programs, complemented these efforts, producing an overall environment supportive of privatization.

In FY 1996, USAID-supported mass privatization programs initiated during the early stages of USAID's Private Sector Initiatives either concluded were drawing quickly to a close. Russia's mass privatization program ended more than two years ago, producing 40 million new shareholders and resulting in a majority of workers being employed by private firms. Other NIS countries, such as Kyrgyzstan, have produced equally impressive results. USAID support for the privatization programs in these countries has focused on program design, the establishment of auction systems, voucher distribution and enterprise preparation. (see Kazakstan, Kyrgyzstan, Moldova and Ukraine country assessments)

Capital Markets Programs

Privatization in the NIS has resulted in the creation of millions of new shareholders, who require not only a venue to trade their shares, but also institutions and mechanisms to regulate investment activity. USAID has played an integral role in developing a whole range of institutional and legal functions essential for an operational capital market, including stock exchanges, clearing and settlement organizations, share registries and depositories, and securities commissions. USAID assistance was also targeted on promoting legal and regulatory reform—critical components in fostering a fair and efficient trading environment in the NIS, where comprehensive laws regulating market activities were previously lacking. Several legal reform programs specifically addressing capital markets issues, including corporate governance and shareholders' rights, were implemented and produced favorable results. (see Russia and Ukraine country assessments)

Kazakstan/Kyrgyzstan: In FY 1996, USAID continued to support the development of market-based institutions in Kazakstan and Kyrgyzstan, including newly formed securities commissions, stock exchanges, central depositories, clearance and settlement organizations, independent share registrars, broker-dealer funds and investment funds. Due to organizational difficulties, Kyrgyzstan's Securities Commission was slow to authorize enterprises for inclusion on the stock exchange registry. These delays limited the number of enterprise shares available for trading and, consequently, the trading volume of the stock exchange. Assistance was provided to facilitate the registry process. In contrast, Kyrgyzstan's regulatory structure and registry system provided a more favorable environment for enterprise registration on the stock exchange. However, enterprise participation in both countries' stock exchanges remained limited: approximately 20 companies were listed on each.

Enterprise Restructuring Programs

Building on the successful transfer of state-owned assets to private ownership in most of the NIS countries, USAID-funded advisors helped enhance the efficiency of newly privatized enterprises. One of the primary focuses of USAID's enterprise restructuring efforts in FY 1996 was accounting reform. Accounting reform activities were focused on improving the quality of financial reporting and internal financial management of privatized enterprises. Weaknesses in these areas continued to impede enterprise performance, asset rationalization, and their ability to raise capital. USAID's activities were targeted at the enterprise level, as well as at self-regulatory standard-setting bodies whose mission is to establish and promulgate accounting standards.

Lessons Learned: Kazakstan and Kyrgyzstan served as pilot countries for USAID's accounting-reform efforts. These initial activities were primarily focused on financial accounting, which helps enterprises appropriately assess the value of their assets for financial reporting. However, these activities were not as

successful as they could have been due to limited host-government support. For example, the Government of Kyrgyzstan was unwilling to adopt international accounting standards. USAID learned from this experience that it is crucial to focus on both financial accounting and managerial accounting simultaneously. While financial accounting is most useful for stock-market purposes because it provides a bottom-line value of an enterprise, managerial accounting includes examining all components of an enterprise, from production to distribution. New USAID accounting-reform initiatives in Moldova and Ukraine have incorporated these lessons learned and address both financial and managerial accounting concepts. In addition, these new initiatives are building local capacity for accounting reform through the formation of professional associations and self-regulatory organizations, which will be responsible for regulating professional membership and advancing further reforms.

Managerial Accounting Manual: Through USAID-funded financial management assistance, an accounting manual produced by Russian accountants was made available for use by enterprises throughout the NIS. The manual emphasizes managerial accounting for enterprises with a focus on improving an enterprise's internal operations, generating savings, and increasing profitability. The manual addresses the financial problems faced by many newly privatized enterprises and outlines solutions based on managerial accounting. In addition to producing the manual, this particular activity also produced the first group of trained local consultants who began advising enterprises on managerial accounting. Based on the training they received from USAID contractors Deloitte and Touche and the Carana Corporation, these local consultants began charging fees for the services they provide. This initiative played an integral role in developing local institutional capacity, leaving behind a group of people capable of creating informative materials, assisting enterprises and carrying on existing reforms, as well as introducing new reforms. This initiative was further expanded to develop so-called "tool kits"— a collection of materials on time-tested restructuring practices proven to be the most effective for use by enterprises.

Legal and Regulatory Reform

In FY 1996, USAID support for legal reform included facilitating the adoption of business and commercial laws that set out the rules of the post-privatization process, and supporting related post-privatization initiatives, such as financial sector reform and the development of trade and investment strategies. USAID assistance in this area addressed issues such as breaking up monopolies, implementing corporate and commercial laws, determining land rights, promoting competition, and helping the NIS countries join the international trading community

Bankruptcy Programs: While privatization has produced many stable private enterprises, some privatized enterprises soon failed and consequently needed to be dissolved so that their assets could be put back into productive use. Lacking experience in dealing with failed enterprises, NIS countries desperately need to develop fair and rational bankruptcy laws and procedures. USAID-funded bankruptcy initiatives started in FY 1995 in Kazakhstan and Kyrgyzstan were wrapped up at the end of 1996. USAID-funded efforts in Kazakhstan included working to develop an out-of-court arbitration procedure for resolving creditor claims for presentation to the State Property Committee. USAID's efforts in Kyrgyzstan required working extensively with the country's new civil code in order to adapt bankruptcy implementation instructions. In both Kazakhstan and Kyrgyzstan, obstacles slowed the progress of these activities. For example, only limited enterprise financial data was available for determining the appropriate path for an enterprise to pursue under bankruptcy law—either reorganization or liquidation. However, this project left behind in each country a group of local judges and legal professionals well versed in bankruptcy procedures and options. Meanwhile, Ukraine made quite remarkable strides in the area of bankruptcy, particularly with respect to judicial training and procedural development. In mid-1996, a two-day conference on bankruptcy and enterprise restructuring throughout the NIS was co-sponsored by USAID, Ukraine's Highest Arbitration Court, the Ministry of Justice, the Economic Commission of the Supreme Rada (Ukrainian Parliament), and the National Bank. The conference was significant because it represented strong in-country support for a very sensitive issue. Other USAID successes included an agreement with the Judges of the Highest Arbitration Court, supported by the Ministry of Justice, to develop new rules of procedure to make the existing bankruptcy law more functional. In addition, USAID worked with the Rada and the Ministry of Justice on a new draft bankruptcy law. Future initiatives include two additional training conferences for judges on bankruptcy procedures and an activity, developed in collaboration with the European Bank for Reconstruction and Development (EBRD), for creating a new line of credit to support companies which have been financially restructured through the banks and the courts. This joint USAID-EBRD effort will be the first of its kind in the NIS.

Collateral Law Programs: USAID-funded activities to help establish laws on collateral were initiated in the NIS in September 1996, specifically in Kazakstan and Ukraine. A long-term collateral law advisor arrived and began working in Ukraine.

Banker Training Programs: In FY 1996, USAID continued to support the development of market-based financial sectors in the NIS by helping to develop central bank infrastructure and providing training in market-based financial services to both commercial and central bankers. Since they have minimal experience in commercial banking, the NIS countries require significant technical assistance in building an efficient and fully functional commercial banking network. Banker training institutes established with USAID assistance have helped build this experience among NIS bankers. The focus of USAID-sponsored bankers' training in FY 1996 was portfolio management, including asset and debt management, savings mobilization, strengthening of internal controls and external audits, and the development of sound lending policies and procedures. These programs were active in Kazakstan, Kyrgyzstan, Moldova, Russia and Ukraine.

Banking Supervision Programs: Economic reforms in the NIS have spawned huge numbers of commercial banks, many of which are undercapitalized, poorly managed, and in violation of national banking regulations. In FY 1996, regionally coordinated USAID-funded efforts in this area addressed issues such as on- and off-site bank supervision, the establishment of bank supervisory units, supervisory capacity-building through training, and dealing with problem assets at insolvent banks.

Fiscal Reform Programs: In FY 1996, inconsistent and contradictory tax policies and tax administration continued to be a major obstacle to investment in many NIS countries. A range of technical assistance was provided throughout the NIS through the Harvard Institute for International Development (HIID) and other USAID contractors, focusing on key fiscal issues, including tax policy, intergovernmental fiscal relations, tax administration, budget analysis, institutional policy development, and social-sector reform. USAID implemented its fiscal reform initiatives on a regional basis, working closely with the governments of the NIS countries (ministries of finance and state tax services), their parliaments, and other economic organizations. USAID technical assistance played a critical role in the implementation of a new tax code in Kazakstan in 1995, and in Kyrgyzstan in 1996. Follow-up assistance in tax administration, including taxpayer education and registration, as well as audit and enforcement activities, helped ensure that the new tax codes of both these countries will be implemented effectively. Similarly, USAID technical assistance supported work by the Government of Russia to develop and adopt a comprehensive tax code, which was subsequently being considered by the Duma. USAID support for other critical tax issues included legislative drafting assistance for value-added tax (VAT) implementation and reform in Kyrgyzstan and Moldova, as well as computerization assistance provided to the state tax services in Kazakstan, Kyrgyzstan and Uzbekistan. Close USAID coordination with members of parliament in several NIS countries had an impact on the final drafts of economic legislation.

Pension Reform Programs: The features of the Soviet Union's centrally planned economy, including substantial hidden unemployment, generous unemployment benefits and extensive government subsidies, continued to plague the social protection systems of the NIS countries in FY 1996. Growing unemployment and ineffective and undercapitalized pension systems continued to threaten the fiscal stability of all of the NIS countries. USAID implemented social-sector reform initiatives in an attempt to tackle the roadblocks to fiscal solvency. (see Ukraine country assessment)

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

In FY 1996, the SEC continued to provide USAID-funded securities-related technical assistance to the NIS countries. The principal objectives of the SEC's assistance activities are to establish ongoing relationships with securities-related regulatory bodies in the NIS countries and to enable the staff of these organizations to draw upon the technical expertise of their regulatory counterparts at the SEC. The SEC provided U.S.-based training to 86 NIS securities-market officials in FY 1996, bringing the cumulative total of NIS participants trained by the SEC in the U.S. during the last three fiscal years to 114. This U.S.-based training consisted of three types of programs: programs specially tailored in response to needs expressed by specific NIS individuals or groups; nationwide or regional programs; and the SEC's two annual International Institutes. The International Institute for Securities-Market Development is a two-

week program offered each spring at the SEC's headquarters with an optional third week in the private-sector securities industry. The International Institute for Enforcement and Market Surveillance is a one-week program offered each fall, also at the SEC's headquarters.

In addition to its U.S.-based training program, the SEC also conducted training programs in the NIS. In May, the SEC and the Russian Federal Commission on Securities Markets (RFCSM) co-hosted a program in Moscow for approximately 30 Russian issuers interested in accessing U.S. markets. In June, senior SEC staff delivered a capital-markets training program in Chisinau, Moldova, for over 30 government officials and securities and investment personnel from Moldova and Georgia. In July, SEC staff participated in an investment fund training program in Moscow. In July and August, a capital-markets training program was conducted in collaboration with a USAID contractor in Kiev for over 35 regional and other staff of the Ukrainian State Commission on Securities and the Stock Market (SSMSC). In September, the SEC conducted another joint training program with USAID staff and contractors in Kiev, on the clearance, settlement and transfer of securities, for an audience of over 40 SSMSC staff and market participants.

Russian-Language Training Materials: During the course of its training programs, the SEC has translated approximately 70 key SEC training documents and other resource materials into Russian. These documents have been made available to securities regulatory personnel throughout the NIS, Russian-speaking foreign visitors to the SEC, and others who were unable to attend SEC training programs. In addition, over 30 videos of the SEC's 1996 International Institute for Securities Market Development were recorded in Russian and made available to NIS participants.

Legal Commentary and Analysis of NIS Capital Markets Issues: The SEC staff has also provided USAID and regulators in Russia, Moldova and Ukraine with written commentary and analysis of NIS capital markets legislation, regulations and related issues.

U.S.-Russia Capital Markets Forum: In July 1996, the Gore-Chernomyrdin Commission announced the formation of a U.S.-Russia Capital Markets Forum, which will have an advisory role with respect to the development of Russian capital markets infrastructure. The Forum will be chaired by the U.S. Treasury Secretary, SEC Chairman, Russia's First Deputy Prime Minister for Economic Affairs and the Chairman of the RFCSM.

FY 1997 Programs: The expertise of the SEC as an independent agency responsible for the regulation of U.S. capital markets enables it to play a unique and objective role in U.S. Government capital markets assistance to the NIS. With the additional funding that it has received from USAID, the SEC is committed to working closely with USAID and other NIS assistance providers, and to expanding its technical assistance initiatives in the NIS. Proposed projects for FY 1997 include the following:

- a training program on the regulation of markets and market participants, cosponsored with the Financial Services Volunteer Corps (FSVC) in Tula, Russia, for approximately 30 persons from the RFCSM, the Securities Department of the Central Bank, the Ministry of Finance and Russia's private sector;
- an investment-fund inspection training program in New York City for RFCSM staff;
- a training program in Washington for RFCSM enforcement staff on shareholders' rights legislation and self-regulatory organization arbitration and disciplinary procedures;
- a Russian-language training program in the United States on enforcement and market surveillance for 50-60 NIS participants; and
- possible training programs on the standards-setting process for accounting and auditing, as well as on securities clearance, settlement and custody.

Also during FY 1997, a number of senior securities officials will participate in the SEC's two annual training institutes, and the SEC will continue to provide commentary and analysis on securities legislation and regulations, including a 1991 Ukrainian securities law which is currently being revised and a proposed investment funds law.

U.S. DEPARTMENT OF THE TREASURY - TECHNICAL ASSISTANCE

In FY 1996, the Treasury Department provided 15 technical experts to eight NIS countries to advise on developing legislation and policies designed to adapt NIS public-sector financial institutions to an economic system based largely on private enterprise. Treasury Department-sponsored experts in government securities, taxation and budget management worked in the finance ministries of these countries, supported by short-term specialists brought in from the United States.

The progress made by these advisors was uneven in FY 1996, with excellent results in supporting government debt- and budget reforms in Armenia and Moldova, while government debt assistance to the Belarus's National Bank and Ministry of Finance was not able to overcome the generally weak commitment on the part of the Belarusian Government to private-sector-driven economic policies. In Russia, a major effort to help prepare a revised and modernized tax code was delayed by parliamentary and presidential elections, although prospects for enacting the code were improving by the end of FY 1996. In FY 1997, the Treasury Department plans to phase out its program in Belarus and to expand its programs in Armenia, Georgia, Russia and Ukraine.

On January 31, 1996, the Treasury Department completed its two-year management responsibilities of the G-7 Support Implementation Group (SIG), which helps G-7 donors and the Russian Government facilitate flows of financial and technical assistance. At the suggestion of U.S. Ambassador to Russia Thomas J. Pickering, the SIG will continue its operations under the auspices of our embassy in Moscow through mid-1997, focusing primarily on updating and maintaining the Donor Assistance Database (DAD) on the technical assistance activities of the G-7 countries in Russia. The DAD is used widely by the G-7 governments to facilitate coordination of their assistance efforts.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - EMERGING MARKETS PROGRAM

The Emerging Markets Program (EMP), formerly known as the Emerging Democracies Program, was originally authorized in the Food, Agriculture, Conservation and Trade Act of 1990 (the Farm Bill) and amended by the Federal Agricultural Improvement and Reform (FAIR) Act of 1996. The Farm Bill authorizes the EMP to develop, maintain and expand markets for U.S. agricultural exports to emerging markets through the sharing of U.S. agricultural expertise in the form of technical assistance. The EMP uses various forms of technical assistance to promote market development, improve market access, and promote the development of emerging market-based economies. The EMP helps participating countries improve the efficiency of rural food markets (e.g., by reducing trade barriers) and increase the prospects for U.S. trade and investment in these countries. The FAIR Act authorizes EMP activities throughout the world at a funding level of \$10 million per year over seven years; however, the share of EMP funds directed to the NIS will be less than it was under the Emerging Democracies Program from FY 1991 to FY 1995.

Agricultural Statistics Training: In FY 1996, USDA's National Agricultural Statistics Service (NASS) helped the Governments of Kazakstan, Russia and Ukraine improve their capability to provide timely, adequate and relevant statistics on agricultural production. In May, eight Russian statisticians received statistics training at the Texas State Statistical Office and in Washington. A three-person NASS team conducted data-collection training in Russia's Mikhailov Region in June. Meanwhile, in Kazakstan, a survey team selected the Almaty, Kokohetau, and East Kazakstan Oblasts (Regions) for an expanded pilot acreage and forecast-production survey of selected crops in June, and a follow-on crop survey was conducted in November to estimate final harvested acreage and production of main crops. In Ukraine, a two-person team conducted training in how to conduct sampling surveys of agricultural enterprises and censuses of gardens and vineyards, as well as how to create a statistical register of agricultural enterprises. NASS continued to help develop a computerized register of private farms to be used for sample surveys.

Training in Market Information and Analysis: USDA's Economic Research Service (ERS) is providing training to ministry and oblast (regional) experts in how to analyze and publicize agricultural market information which serves the needs of farmers, processors, agribusinesses, investors and consumers. Better market information will help identify market opportunities for U.S. agricultural products and thereby stimulate U.S. exports to the region. In Russia, this project is focused on the Russian Far East, including

the Khabarovskaya and Primorskaya Oblasts (Regions), which are large markets for grain and horticultural products. The Russian component of the project will serve as a bridge to a market information system to be established nationwide under the World Bank's ARIS project. In Ukraine, ERS has trained over 55 Ukrainian analysts since January 1996 from the oblasts (regions) of Lviv, Odesa, Lugansk-Vinnitsy, Sumy, Nikolaev and Crimea. Three groups of experts were trained in micro-economic theory, computer skills, forecasting and analytical techniques.

USDA/WTO Food Safety Seminar: In July, USDA and the World Trade Organization (WTO) sponsored a conference in Moscow on the WTO Agreement on Sanitary and Phytosanitary Measures for 30 plant quarantine and veterinary inspection officials from Russia, Kazakstan, Belarus, Ukraine and Moldova. The participants discussed food-borne illnesses, as well as detection and prevention methods for international food shipments. The conference concluded with a food safety workshop.

(See also Russia and Ukraine country assessments)

USAID FARMER-TO-FARMER PROGRAM

In 1991, a three-year, \$30 million special initiative of USAID's Farmer-To-Farmer (FTF) Program was authorized as one of the first U.S. Government assistance programs for the NIS countries, funded from P.L. 480 Title II resources. In FY 1995, USAID's Bureau for Europe and the New Independent States (ENI) provided \$7.74 million to extend the program for one additional year, and in FY 1996, USAID provided an additional \$8 million from P.L. 480 resources to continue the program through September 1997.

The NIS-FTF Program provides short term U.S. agricultural technical assistance to all 12 NIS countries on a people-to-people basis, with the goal of facilitating an orderly transition to a free-market economy. Specifically, the NIS-FTF Program is designed to help increase food production and distribution, and improve the effectiveness of the farming and marketing operations of NIS farmers. The program utilizes the expertise of U.S. farmers, agriculturists, land grant universities, private agribusinesses and non-profit farm organizations on a voluntary basis in response to local needs identified by host-country farmers and organizations. FTF volunteers, who have come from 49 of the 50 states, take temporary leaves of absence from their domestic careers, farms and agribusinesses, or are retired, and want to participate in development efforts.

The NIS-FTF Program is implemented by five grantees: Agricultural Cooperative Development International (ACDI), Citizens' Network for Foreign Affairs (CNFA), Land O'Lakes (LOL), Volunteers in Overseas Cooperative Assistance (VOCA), and Winrock International. As of the end of FY 1996, over 2,480 U.S. farmers and agricultural professionals had provided assistance to NIS farmers, agribusinesses and agricultural organizations under the NIS-FTF Program.

In FY 1996, a total of 539 FTF volunteer assignments were completed in the 12 NIS countries, broken down as follows:

Armenia	15	
Azerbaijan	13	
Belarus	11	
Georgia	18	
Kazakstan	67	
Kyrgyzstan	35	
Moldova	16	
Russia	222	
Tajikistan	19*	*Funded under USAID's
Turkmenistan	25	Global FTF Program
Ukraine	68	
<u>Uzbekistan</u>	<u>30</u>	
TOTAL	539	

In June and July, an impact evaluation of the NIS-FTF Program was carried out by Agricultural Development Consultants, Inc. (AGRIDEC), using a team of five independent consultants and one USAID agricultural officer. The evaluation found that the program was fully meeting its objectives as set forth in its authorizing legislation, and was achieving a degree of impact that went well beyond creating goodwill through people-to-people contacts. The NIS-FTF Program's volunteers shared their own experiences in market-oriented agriculture, thus providing their NIS counterparts with credible advice. In addition to providing training and advice in the various elements of running a business, these volunteers helped create farmers' associations and other organizations which are now beginning to develop a capacity to provide needed technical and business-related services to farmers and entrepreneurs. The NIS-FTF Program helped develop indigenous institutional capacity and provided much-needed support to new, market-oriented private entrepreneurs and agribusinesses.

According to the evaluation results, the NIS-FTF Program was also having a positive impact in the United States by raising public awareness of conditions in the NIS, correcting popular misconceptions about the lives and attitudes of citizens of the NIS countries, and helping to inform U.S. businesses about the business environment and opportunities in the NIS. The personal ties between FTF volunteers and their NIS counterparts continue long after their assignments have ended, creating a web of economic and personal ties. Returned NIS-FTF volunteers have made presentations to community groups, professional organizations and educational institutions throughout the United States, and have received substantial local media coverage.

A total of 503 volunteer assignments are planned for FY 1997. NIS-FTF volunteers will be fielded in all 12 NIS countries. In addition, the component of the NIS-FTF Program funded under P.L. 480 is being supplemented with additional funding for activities in Armenia and Ukraine.

USAID FOOD SYSTEMS RESTRUCTURING PROGRAMS

As of the end of FY 1996, USAID had obligated a total of \$83 million under the Food Systems Restructuring Project, including \$8.2 million in FY 1996, and expended a total of approximately \$53 million. Some \$7 million in additional FY 1996 resources for the agriculture and agribusiness sectors came from other FREEDOM Support Act-funded USAID projects.

The Food Systems Restructuring Project is designed to create elements of a private-sector food production and distribution system in the NIS, thus accelerating the development and growth of private enterprises, the transfer of state-owned assets—especially land—to the private sector, and the development of a more competitive and market-responsive private financial sector.

Agribusiness Partnerships

The core of USAID's Food Systems Restructuring Project is the Agribusiness Partnership Program (APP), a private-sector-driven program which provides grants to support food-systems partnerships and joint ventures between U.S. companies and companies in Kazakstan, Moldova, Russia and Ukraine.

The APP, which is the largest such program in the NIS, uses USAID funds to leverage private U.S. and host-country agribusiness investment, at a minimum ratio of 2.5 private dollars for every dollar of USAID funding. In FY 1996, the APP's administrative structure was consolidated into two cooperative agreements, one with Agricultural Cooperative Development International (ACDI) and the other with the Citizens' Network for Foreign Affairs (CNFA).

Farm Restructuring and Privatization

In FY 1996, USAID-funded advisors in Russia made significant progress in demonstrating the economic and commercial benefits of collective-farm restructuring and privatization and in developing an indigenous capacity to undertake farm restructuring. In Ukraine, a farm restructuring activity comparable to that under way in Russia was launched in two oblasts (regions).

(see also Kazakstan, Russia and Ukraine country assessments)

TRAINING AND EXCHANGE PROGRAMS

U.S. INFORMATION AGENCY (USIA) FREEDOM SUPPORT ACT EXCHANGES

In FY 1996, USIA used FREEDOM Support Act funding to sponsor short-term and long-term U.S.-based exchange programs (ranging from one week to two years in length) for nearly 4,000 NIS citizens, bringing the cumulative number of participants in USIA's FREEDOM Support Act-funded programs to nearly 30,000. Most of these participants were selected through nationwide, merit-based competitions which were openly advertised and reached out to all parts of each NIS country. In FY 1996, USIA accelerated its efforts to encourage networking among its program alumni and facilitate their continued interaction with their U.S. counterparts by organizing alumni workshops and providing Internet access, electronic ListServes and newsletters, and establishing enhanced public-access information resource centers.

USIA launched two major new initiatives in FY 1996. The Community Connections program, which builds on USIA's successful community-based Business for Russia program, provides practical internships for groups of entrepreneurs, local government officials and legal professionals from cities in Russia, Ukraine and Moldova. The U.S.-Russia and U.S.-Ukraine Awards for Excellence in Teaching seek to recognize 300 educators in English language and American studies from throughout Russia and Ukraine who have demonstrated innovation in the classroom, and to provide their schools with tangible assistance in the form of educational materials and/or equipment. In addition, the embassy-based "Democracy Funds" Small Grants Program established in FY 1995 and administered by USIA in several NIS countries proved to be an effective tool with which U.S. embassies could provide direct support to small projects having a major impact on local reform efforts. USIA hopes to expand on all of these new initiatives in FY 1997.

Academic Exchanges

Secondary School Exchanges: USIA's NIS Secondary School Initiative consists of three programs—the Academic Year Program, the School Linkages Program, and the Academic Studies Program—which support exchanges of NIS and U.S. high-school students and educators. These programs have the widest geographic diversity, both in the NIS and the United States, of any USIA exchange program. The NIS Secondary School Initiative focuses on topics such as civic education, the environment, volunteerism and agriculture. In conjunction with the Health Committee of the Gore-Chernomyrdin Commission (GCC), health education for teens, including the combating of substance abuse, was given special emphasis in FY 1996. Russian and U.S. exchange students made a presentation before the GCC Health Committee in Washington and at a health education seminar in Moscow. Also in FY 1996, USIA developed surveys to measure the impact of its high-school exchange programs and administered them to pilot groups of students and teachers.

- **The Academic Year Program** brought 1,180 students to the United States to live with American families and attend local high schools for the 1996-97 school year. In FY 1996, USIA stepped up the program's alumni activities. In many of the NIS countries, USIA alumni associations have been very active in applying for grant funds for projects, assisting members with job searches, conducting seminars and debates, assisting with the orientation of Academic Year Program participants, performing community service and promoting the continuing education of alumni.
- **The School Linkage Program** exchanged groups of students and educators between paired U.S. and NIS secondary schools. Over 2,000 NIS students and teachers and another 2,000 Americans traveled to their partner schools during the 1995-96 school year. In FY 1996, the School Linkage Program was shifted from FREEDOM Support Act funding to USIA base-budget funding. Approximately 300 teachers participated in the program in FY 1996. A database of teachers who participated in the program was established.
- **The Academic Studies Program** provided partial support for semester and academic-year studies for NIS and U.S. students. During the 1995-96 school year, 210 NIS students spent a semester in the United States. During the 1996-97 school year, 236 NIS students will come to the United States on this program, and 30 U.S. students will spend a semester in one of the NIS countries. This program was shifted from FREEDOM Support Act funding to USIA base-budget funding in FY 1996.

Undergraduate Exchanges: In FY 1996, USIA awarded grants to the American Collegiate Consortium (ACC), the American Council of Teachers of Russian (ACTR), and Youth for Understanding (YFU) to administer undergraduate exchanges. FREEDOM Support Act funds were supplemented by increased cost-sharing on the part of the three implementing organizations, as well as on the part of the U.S. host institutions. USIA placed 262 NIS students at 77 four-year colleges and universities and seven community colleges representing 35 states.

USIA undergraduate program alumni have been very successful after returning to their home countries. For example, a program participant from Kyrgyzstan won a national award for an economic paper she wrote, and now works for the International Monetary Fund (IMF), while another former participant from Ukraine now works for a small private company where she is responsible for teaching other employees the fundamentals of marketing and how to use computers. A program alumnus from Kyrgyzstan now works as an editor for the Kyrgyz News Digest, an e-mail service that publishes news briefs about Kyrgyzstan on the Internet, and an alumnus from Russia is now an economics professor at Kuban State University. As of the end of FY 1996, associations of USIA undergraduate program alumni had been established in several NIS countries for the 550 alumni of the program, and alumni activities were being planned for the 1996-1997 academic year.

USIA's close supervision of the program led to broader recruitment in the NIS and broader placement of students in the United States, with the number of participating U.S. universities increasing from 43 to 77. FY 1997 will be a year of transition for the program: USIA plans to consolidate the number of organizations working on the program, to draw universities more directly into the process and to cluster students on U.S. campuses, which should lead to additional cost-sharing and the establishment of linkages between U.S. and NIS institutions.

- **Russian-Eurasian Awards Program (REAP):** In FY 1996, the third year of the four-year REAP program, 209 NIS students received partial funding to attend U.S. colleges and universities. As in previous years, the recipients used the relatively small awards in conjunction with tuition waivers and other support provided by their host institutions. REAP will conclude at the end of the 1997-98 academic year.

FREEDOM Support Act Graduate Exchanges: In FY 1996, USIA brought 108 NIS citizens to the United States on master's-level studies and professional development programs in the following fields: 17 in business administration, eight in economics, 24 in education administration, 16 in journalism and communications, 12 in law, 15 in library and information sciences, eight in public administration and eight in public policy. USIA Graduate Fellows, the majority of whom earn a degree at the conclusion of their program, were placed at 50 institutions in 28 states and the District of Columbia. The program provides intensive academic and professional training, and leverages significant cost-sharing by the U.S. host universities, which cover the participants' tuition and fees. In FY 1997, USIA will continue to focus on tracking the progress of its graduate program alumni and organizing alumni programs, as well as on streamlining the administration of the program. As part of this overall effort, USIA will decrease the number of implementing organizations from three to two.

- **Alumni Programs and Activities:** In FY 1996, USIA supported mid-program workshops for 226 FY 1995 FREEDOM Support Act Graduate Fellows. Fellows were divided by their region of origin and field of study to attend a workshop in either Chicago or Houston focusing on the process of developing a civil society. A new series of regional alumni conferences initiated in FY 1996 also focused on civil-society development: the first such conference was held in Minsk in September, and additional alumni conferences were planned for Tbilisi (Georgia), Vladivostok and Nizhny Novgorod (Russia) and Tashkent (Uzbekistan). USIA also sponsored a career development forum in Moscow for program alumni from Russia, involving approximately 30 U.S. and Russian businesses and over 250 program alumni. In addition, USIA supported the publication of two issues of a newsletter and directory for the program's 395 alumni. Several other smaller alumni events such as seminars and roundtable discussions were held throughout the NIS.

Research and Faculty Programs

Awards for Excellence in Teaching: In FY 1996, USIA issued a \$1.7 million grant to the American Council of Teachers of Russian (ACTR) to conduct the U.S.-Russia and U.S.-Ukraine Awards for Excellence in

Teaching competitions. Under this new initiative, nationwide competitions will be held in Russia and Ukraine to select and recognize outstanding secondary-school teachers in the fields of English language and American studies by providing their schools with educational materials and equipment. These high-profile cooperative programs are being conducted in coordination with the Ministries of Education of Russia and Ukraine. These two awards programs are designed to recognize talented teachers, to promote the development of innovative teaching methodologies, and to promote direct contacts between teachers and schools in the United States and those in Russia and Ukraine. Under the two programs, 225 teachers in Russia and 75 teachers in Ukraine will be selected as regional semifinalists in merit-based competitions. They will each receive \$200 worth of teaching materials, and their schools will receive \$2,000 worth of educational equipment or services. From these groups, 30 Russian teachers and 15 Ukrainian teachers will be selected as national finalists and will travel to the United States to participate in six- to eight-week professional seminars along with their U.S. counterparts during summer 1997. Up to 10 U.S. teachers will be selected to work with the Russian and Ukrainian teachers at the summer seminars, and up to 20 will travel to schools and communities in Russia and Ukraine in fall 1997.

Fellowships in Contemporary Issues: This NIS-wide, merit-based openly competed program brings policy-makers and government officials; leaders of nongovernmental organizations (NGOs); journalists, lawyers and other practitioners; and scholars to the United States for three- to six-month research fellowships at U.S. universities, think tanks, NGOs and government offices. All Fellows are assigned U.S. host advisors, and they conduct research on topics that advance the transition to democracy, free markets, and civil society in their home countries. In FY 1996, 185 Fellows conducted research at U.S. institutions in 35 states on topics including defense conversion in Ukraine, agribusiness in Armenia, nuclear security in Russia, tax policy in Kyrgyzstan, environmental law in Moldova, conflict resolution in Georgia, health-care reform in Kazakhstan, and human rights in Belarus. Program innovations in FY 1996 include an on-line interactive journal by and for program alumni, NIS and U.S. practitioners and scholars; planned regional alumni conferences on professional development issues; and policy roundtables in Washington, D.C. Program alumni have begun to apply the knowledge, skills and insights gained during their U.S. fellowships by writing articles and policy papers, participating in conferences, drafting legislation and forming NGOs. Many alumni continue to collaborate with their U.S. colleagues and are advising U.S. Government officials on political, economic and social trends in the region, such as the growth of organized crime in Russia.

Junior Faculty Development (JFDP) - The JFDP is an open, merit-based competition that offers one-year U.S. fellowships to promote curriculum development in the fields of business administration, communications, economics, law, library administration, public administration and university administration to promising young faculty from Russia and Ukraine. A total of 64 fellows from Russia were hosted by 28 U.S. universities during the 1995-1996 academic year. In April, two JFDP host universities—Bowling Green State University and Case Western Reserve University—jointly sponsored a conference in Cleveland which gave JFDP participants an opportunity to evaluate their U.S. university experience, examine how they can promote educational reform at their home institutions, and develop contacts that will promote collaboration and a continuing exchange of ideas after the participants have returned to Russia. The 1995-1996 JFDP Scholars ordered and shipped \$56,000 in books and other educational materials to their home universities for use by their students and colleagues. During the 1996-1997 academic year, 76 JFDP scholars are being hosted by 24 U.S. universities. For the first time, 20 JFDP faculty members from Ukraine will participate in the program.

- **Alumni Programs and Activities:** The first meeting of JFDP alumni, which was held in Moscow in June, was attended by approximately half of the JFDP Class of 1994-95. Alumni gave reports on their activities in the year since returning to Russia, shared ideas on the implementation of curriculum reforms and other educational reforms, and discussed the establishment of an alumni network. One JFDP alumnus who is a member of the board of the Russian Fulbright Alumni Association, gave a presentation about the fledgling association and asked JFDP alumni for their input. Alumni suggested developing a newsletter; offering small grants for follow-up activities, including short-term visits to the United States and the publishing of textbooks based on ideas developed during the fellowships; and encouraging members to form special interest sections by academic discipline and/or by the type of USIA program in which they participated.

NIS-U.S. Teacher Exchange Program: Under USIA's NIS-U.S. Teacher Exchange Program (NISTEP) in FY 1996, 17 teachers from six NIS countries—Armenia, Belarus, Kazakhstan, Moldova, Russia and Ukraine—and two U.S. teachers placed in Russia and Ukraine successfully concluded year-long civic-education teaching exchanges in U.S. and NIS schools, respectively. The U.S. teachers taught civics in a secondary

school and a pedagogical institute, while the NIS teachers taught social studies courses in U.S. secondary schools, observed local civic and community activities, and designed civic-education curriculum reform projects for implementation in their home schools. A second group of NIS and U.S. teachers began their year-long exchanges in August. Another 17 teachers arrived from the above six NIS countries and Georgia, and five Americans began teaching civics in schools in Moldova, Russia and Ukraine. Upon their arrival in August, the NIS teachers were asked to follow a local, congressional or presidential campaign and to report on it as part of their local civics-based activities. In April, nearly 60 alumni of USIA teacher exchanges participated in an alumni workshop in Moscow, in which they discussed how to apply their U.S. training in their home-institution classrooms, as well as how to implement new approaches to teaching and curriculum development, expand alumni networking, and take advantage of Internet resources.

Educational Reform Programs

Summer Institutes: During summer 1996, three intensive USIA-sponsored institutes for Russian professors in the social sciences were held at U.S. universities. The first group of ten professors studied approaches to political science for six weeks at the University of Kansas in Lawrence and attended the annual meeting of the American Political Science Association in San Francisco. The second group had a comprehensive introduction to the same subject at a six-week session organized by the New School for Social Research in New York. The third group of professors studied the teaching of international relations for six weeks at an institute administered by the University of Maryland at College Park.

Social Science Curriculum Development Programs: In FY 1996, USIA supported preliminary work by the International Research and Exchanges Board (IREX) and the American Council of Teachers of Russian (ACTR) to promote the development of university-level curriculum development programs in Russia by linking specific U.S. university departments with four counterpart departments at Russian universities: the department of modern history at Nizhniy Novgorod State University and Villanova University in Pennsylvania; the political science departments at Urals State University and Southern Illinois University; the modern history departments at Samara State University and the University of Maryland; and the economics departments at the Far Eastern State Technical University and the University of Nebraska at Lincoln.

Civic Education Small Grants: USIA's work in civic education focused on the organizing of workshops in Russia through the Russian organization Grazhdanin (Citizen) to introduce Russian civic educators to materials that are being developed by Grazhdanin in association with Syracuse University.

FY 1997 Programs: In FY 1997, USIA expects to provide grants to the University of Hawaii and Syracuse University in support of civic-education curriculum development programs for educators from two new Russian regions to be selected by USIA-Moscow. Civics curricula will be developed to respond to specific regional interests. In addition, a conference on civic education and a workshop for civics teachers will be held in Nizhniy Novgorod in collaboration with the American Federation of Teachers.

Professional Exchanges

Community Connections: Building on the success of its Business for Russia program, USIA expanded its community-based exchanges in FY 1996 by introducing Community Connections, a cost-effective new program designed to bring clusters of entrepreneurs, local government officials and legal specialists from Russia, Ukraine and Moldova to U.S. communities for practical programs with their U.S. counterparts. Community Connections participants are recruited through U.S. organizations with extensive experience in the field, in close coordination with our embassies in the three countries. Members of the U.S. host communities offer countless hours of volunteer time by serving as host families, offering internships with local businesses and providing mentoring by local officials. Community Connections seeks to create new ties and build upon existing ties between U.S. and NIS communities, with the goal of helping them become self-sustaining. Once a cluster of participants is matched with a local community, the host community develops a two- to five-week program based on the participants' areas of interest. During FY 1996-97, an estimated 1,240 participants will take part in Community Connections: 495 from Russia, 645 from Ukraine and 100 from Moldova. Of this group, an anticipated 575 people will participate in business-related programs, 315 in local government programs, and 345 in programs on legal and regulatory reform.

FREEDOM Support Grants: In FY 1996, the FREEDOM Support Grants program hosted 368 influential and high-ranking visitors, including members of parliament, cabinet ministers, supreme court justices, and regional and local officials. The largest number of FREEDOM Support Grantees was from Russia, 221, followed by 45 from Ukraine, 21 from Armenia, 17 from Belarus, 13 from Georgia, 13 from Kyrgyzstan, 12 from Kazakstan, eight from Tajikistan, eight from Turkmenistan, seven from Azerbaijan, and three from Moldova. Areas of focus included the rule of law; the U.S. judicial and legislative systems; defense and security issues; economic development; journalism; education; local government; and budget oversight and taxation. Unfortunately, a shortfall of FREEDOM Support Act funding midway through the fiscal year prevented USIA from considering many of the requests for FREEDOM Support Grant programs coming from our embassies in the NIS.

- **Program Impact:** FREEDOM Support Grant programs on the rule of law, the U.S. judicial and legislative systems, and defense and security issues were among USIA's most effective programs in FY 1996. Participants in these programs were deeply impressed by the respect for the rule of law in the United States—one Armenian participant expressed amazement that the U.S. Government can be sued and can actually lose a court case. Upon returning home from a two-week FREEDOM Support Grant program in May, the Chairman of the Belarusian Parliament spoke out forcefully for greater adherence to the Belarusian Constitution, and emerged as a leading proponent of making the legislature a counterbalance to the executive branch.

Federalism Exchanges: In FY 1996, the Lawyers' Alliance for World Security conducted USIA-supported workshops in Samara led by a delegation of four officials from Minnesota and a faculty member from the Humphrey School of Public Affairs of the University of Minnesota. In addition, with USIA support, the National Conference of State Legislatures (NCSL) conducted a four-week technical consultation by U.S. experts in federalism and legislative management, a nine-day workshop conducted by four U.S. specialists for members of the Tomsk City Duma (Council), and a two-week U.S. study tour for ten Russian oblast (regional) officials. In FY 1997, two regional government officials from Russia will intern in state governments in the United States, and a staff member of the Tomsk Duma will come to the United States for a two-week internship in a city government.

University Partnerships

Since fall 1993, USIA has awarded a total of 34 college and university partnership grants. These cost-effective grants have led to numerous spin-off activities, and have established a solid basis for continued institutional reform in the NIS. Although roughly one-third of these two- or three-year grants expired at the end of FY 1996, the partnerships will be sustained through other funding sources. For example, the University of California at Berkeley secured \$1 million in matching funds from a U.S. philanthropist to continue developing a school of management which it helped establish at its partner institution, St. Petersburg State University, in October 1994. The donation is contingent on an equal match from other sources, and USIA will use its base-budget funds to leverage the privately donated matching funds.

These grants have demonstrated that the partnership model is a remarkably flexible, cost-effective and self-sustaining one. By the time the grants expired, approximately 378 U.S. and 508 NIS college/university representatives had participated in exchanges under the partnership programs. The partnerships are characterized by visible progress towards institution-building and reform, significant cost-sharing, and curriculum innovations. In addition, these partnerships foster public-private cooperative efforts, reaching hundreds of individuals and more than 80 institutions of higher learning in the U.S. and the NIS. In order to foster institutional links among the participants in the University Partnerships Program, USIA established LINKIT, a computer discussion group.

- The partnership between the Belarus Institute of Educational Administration and New York University has led to the translation of instructional materials, including a social studies textbook, to be used in Belarus. Partnership participants also developed a computer network that allows information to be shared among a wide group of Belarusian and U.S. secondary and undergraduate educational institutions.
- Rostov State University and New York University will bring together experts from a variety of Russian journalism institutions to translate four Western-style journalism texts and adapt them to Russia's media environment. Copies of the texts will be distributed to 35 journalism programs throughout Russia.

- Ivanovo State Energy University and Collin County Community College successfully established a regional multimedia distance-learning center. Russia's Ministry of Education subsequently designated Ivanovo as the training center for 11 Russian regions.

In FY 1997, the University Partnerships program will begin receiving partial funding from USIA's base budget, which will be devoted to enhancing the strongest ongoing partnerships between U.S. and NIS institutions. Priority partnership projects for Russia include the development of an executive training program for business managers in Primorye; the expansion of a K-11 civic education program to key oblasts (regions) outside of Nizhniy Novgorod; and the development and expansion of distance-learning programs in Samara and Ryazan. Other priority projects include a journalism training program in Almaty, Kazakhstan, and a commercial law development project in Tashkent, Uzbekistan.

“Democracy Funds” Small Grants Program

Building on the success of the USIA-administered Democracy Commissions in Central Europe, an embassy-based “Democracy Funds” Small Grants Program was initiated in the NIS during the latter half of FY 1995 as a flexible mechanism with which embassy-based Democracy Commissions can award grants to host-country organizations or individuals in support of democratic initiatives. In particular, the program targets independent media and other organizations promoting the free flow of information. The Democracy Commissions, which are comprised of our ambassador, a USIA public affairs officer, a USAID representative, and any other individuals deemed appropriate by the ambassador, directly award the grants and ensure that the funded activities help achieve U.S. Government policy objectives.

During FY 1995, the first year of the program, Democracy Funds were active in four NIS countries: Armenia, Georgia, Kazakhstan and Kyrgyzstan. The majority of these grants supported independent newspapers, radio and television stations. Nongovernmental organizations (NGOs) such as the Kazakhstan Association of Youth Leaders; the Committee for Human Rights in Kyrgyzstan; and Georgia's Institute for Peace, Democracy, and Development (GIPDD) received small grants to aid in civic education and citizenship training. In FY 1996, the Democracy Funds program was expanded to include Azerbaijan, Belarus, Moldova, Ukraine and Uzbekistan. Small grants were awarded for projects including support for independent media, conflict resolution activities, and voter-registration drives. For example, the Association of Young Ukrainian Political Scientists and Politicians received a grant to publish a journal on Ukraine's new constitution, and Armenia's Democracy Union produced a brochure listing the political platforms of Armenia's political parties and presidential candidates. ASKET-TV in Transnistria received a grant to purchase television equipment which will enable the independent station to broadcast its programs. The Democracy Funds program is administered by USIA, except in Tajikistan and Turkmenistan, where it is administered by the Eurasia Foundation.

U.S. - Eurasia Internet Access and Training Program (IATP)

In FY 1996, USIA, in cooperation with the U.S. and NIS private and public sectors, launched a project to provide sustainable access to and training in e-mail, the Internet and the World Wide Web for alumni of U.S. Government-sponsored exchange and training programs and their colleagues in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan. Access to e-mail, Internet, and the resources of the World Wide Web helps those NIS citizens who are engaged in consolidating the transition to democracy, free markets, and civil society, to keep current and connected in their fields, obtain educational and professional materials, disseminate information, publish articles on the Web, and continue collaborative projects with their U.S. and NIS colleagues.

The IATP achieves these objectives by working closely with USIA posts in the NIS to select and establish public access e-mail and Internet sites and public-publishing Web sites at NIS universities, libraries and NGOs. The IATP provides training to help NIS institutions establish an on-line presence, develop Web sites in the local language, support low-cost academic and non-commercial networks, and train NIS Internet trainers and users on technical aspects of the Internet, as well as on thematic approaches to Internet resources. All of the participating NIS institutions are required to contribute existing computer equipment, staff, training facilities, or other resources and to operate the public-access sites independently after finishing their training. BY June 1998, the IATP plans to create 65 public-access Internet sites at NIS universities, libraries and NGOs, provide communications assistance to 480 NIS institutions, and train 90 NIS Internet trainers.

IATP public-access Internet sites have been established at universities, libraries, institutes and NGOs in Moscow, St. Petersburg, Novosibirsk, Irkutsk, Tomsk, Yekaterinburg, Penza, Rostov-on-Don, Vladivostok, and Khabarovsk in Russia; Kiev and Kharkiv in Ukraine; Almaty, Kazakstan; and Tashkent, Uzbekistan. In FY 1997, IATP public access sites are expected to be established in Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan and Moldova.

In-Country Media Programs

Professionals-In-Residence: During the latter half of FY 1996, the former Moscow bureau chief for the Federal News Service ended his two-year assignment with USIA's Media Resource Clearinghouse at the Russian American Press Information Center (RAPIC) in Moscow. During his tenure, he produced a monthly newsletter in English and Russian on media developments inside Russia, which was sent to thousands of contacts by mail and through the Internet (and which helped identify candidates for USAID-funded media programs), developed a database of media organizations in Russia and held monthly roundtables for journalists on issues related to freedom of the press. To replace the departing professional-in-residence, USIA selected the former executive director of Investigative Reporters and Editors (a nonprofit professional association) for a nine-month assignment to RAPIC. He is now helping to develop RAPIC's electronic infrastructure and will be giving seminars on computer-assisted reporting. His assignment in Moscow began in late October. As of the end of FY 1996, all of the activities of the Media Resource Clearinghouse had been folded into RAPIC.

Russian American Press and Information Center (RAPIC): Founded in 1992 by New York University's Center for War, Peace and the News Media, RAPIC provides education, training, consulting, professional development assistance, information and expert analysis to journalists and journalism students. FY 1996 marked the third year of USIA support for RAPIC. RAPIC's regional branches in Rostov-on-Don, Yekaterinburg, St. Petersburg, Novosibirsk and Nizhniy Novgorod worked closely with the Moscow office on a number of nationwide initiatives, including *Choice of the Regions*, a newsletter that monitored regional press coverage of Russia's 1996 presidential elections. In addition, RAPIC continued working on its Media and Conflict Program; publishing a manual about reporting on ethnic diversity and minority rights, and facilitating the formation of multi-ethnic reporting teams.

Osh Media Training Center: Through an informal, cooperative agreement with UNESCO, USIA-Bishkek established a journalism training center in Osh, southern Kyrgyzstan's largest city. Equipped with computers and a journalism reference library, the center is a place where visiting journalists and USIA-sponsored specialists provide ongoing training, seminars and workshops for the region's journalists.

Caucasus Media Training Project: In FY 1996, USIA's Caucasus Media Training Project, which is implemented by Internews, continued to strengthen nongovernmental sources of news and information in Armenia, Azerbaijan and Georgia by training television managers, journalists, editors and engineers; developing a pan-Caucasian news exchange and establishing regional production units. Seven seminars were held in Baku, Tbilisi and Yerevan on television-station management, advertising, and camera work. Internews helped a weekly Georgian news program begin production, and in late September, the first edition of a trans-Caucasus news program was produced with Internews' assistance.

U.S.-Based Media Training Programs:

Media Workshops: USIA sponsored two media training workshops, one in Washington and one in New York. The first workshop familiarized twelve Russian television managers with the concept of U.S. television networks, network structure, legal considerations, affiliate relations and sales at the network level. The second workshop focused on financial management concepts and practices.

Professional Development Year Program: In FY 1996, USIA placed two Russian and one Kyrgyz journalist at three U.S. universities—the University of Missouri, Boston University and the University of Central Oklahoma—for professional development programs in journalism, media management and international communications.

Other Internships and Training Programs: Duke University provided internships at the North Carolina Center for Public Television and at CNN for 18 NIS journalists, who had an opportunity to meet other journalists from around the world who were in the United States on similar grant programs. The School of Journalism of the University of Kansas, in collaboration with the Kansas Press Association, provided training for two Kyrgyz Technical University (KTU) faculty members, to enhance their abilities to teach a new twelve-course journalism curriculum at KTU. The two KTU faculty members began their program with personalized training and site visits at the University of Kansas. Another two faculty members from KTU will come for the spring semester.

National Forum Foundation (NFF): In FY 1996, twelve journalists from various cities in Russia completed two six-week internships in media organizations in the United States. Four more began their programs in mid-September and stayed through early December. In all, 34 regional and local government officials from Russia, 20 Russian journalists, and 22 Ukrainian local and regional government officials participated in U.S.-based internships organized by the NFF.

U.S. INFORMATION AGENCY (USIA) NON-FREEDOM SUPPORT ACT EXCHANGES

In FY 1996, USIA implemented the following programs using funds from its own base budget:

Graduate Exchanges

Edmund S. Muskie Fellowship Program: In FY 1996, the Muskie Fellowship Program provided awards to 101 NIS citizens for master's-level study and professional development programs in the United States in the fields of business administration, economics, law and public administration. Muskie Fellows were placed at 63 institutions in 31 states and the District of Columbia. A mid-program workshop for 127 Muskie Fellows on civil society development was held in Washington, and Muskie Fellows participated in USIA's regional alumni conference on civil society in Minsk and a career forum for USIA program alumni from Russia. USIA supported two issues of an alumni newsletter and an alumni directory. Several smaller alumni events such as seminars and roundtable discussions were held throughout the NIS.

Faculty Exchanges

Regional Scholars Exchange Program (RSEP): In FY 1996, USIA funded fellowships ranging from one semester to one year for 100 NIS and 10 U.S. pre- and post-doctoral scholars and university faculty at U.S. and NIS host institutions, respectively. The programs supported research in specific fields, including American studies, business administration, civic education, economics, finance, international relations, journalism and media studies, law, political science, management, public administration and urban studies. Upon returning to their home countries, the Regional Scholars participated in conferences, seminars, lecture series, electronic ListServes, publications, and Internet access programs designed to support their professional growth and enable them to maintain professional contacts with U.S. and NIS colleagues. A new interactive journal by and for RSEP alumni will come on-line in 1997. RSEP alumni have developed new curricula in political science, history, economics, and English as a foreign language, and have enacted educational reforms in their home countries.

Curriculum Consultants Exchange Program (CCEP): In FY 1996, CCEP began providing grants for the development of teaching materials and curricula in the humanities and social sciences, and involved the two-way exchange of 15 NIS and 15 U.S. humanities/social science educators or advanced graduate students for periods ranging from one semester to an entire academic year. FY 1996 marked a departure from the program's previous format: from 1988 to 1995, the CCEP was a language-oriented consulting exchange, focusing primarily on Russia and Ukraine.

Fulbright Scholarship Program: In FY 1996, the Fulbright Program provided opportunities for 65 U.S. and 73 NIS university faculty members to conduct research abroad for periods ranging from one semester to one academic year. U.S. Fulbright Scholars were almost exclusively involved in lecturing and developing curricula throughout the NIS. While U.S. lecturing opportunities were available to NIS Fulbright Scholars, virtually all of them opted to do research during their stay in the United States.

PROFESSIONAL EXCHANGES

International Visitors (IV) Program: In FY 1996, a total of 157 NIS citizens participated in individual or group projects under USIA's IV Program. The projects focused on a variety of themes, including journalism, business aspects of running a media outlet, university management, professional development for educators, women's issues, NGO management, environmental and sustainable-development issues and public-sector financial management. A number of English-speakers participated in multi-regional IV projects. Upon returning home, IV participants used the knowledge and insight gained during their programs to implement significant reforms in such areas as financing, law, politics, education and human rights. One former IV grantee published two full-page articles detailing her impressions about the United States and introduced civic education in all of the schools in her region, while a professor from Lviv University in Ukraine planned to revise teaching methodologies and curricula for courses in American studies and to restructure that department at her university. The deputy chairman of the Russian Parliament's foreign trade committee returned home with a new vision of how Russian local and regional governments could encourage foreign trade and investment in their communities. The new speaker and three new committee chairmen of the newly elected Georgian Parliament also participated in IV programs.

Secondary School Exchanges

School Linkage Program: In FY 1996, approximately 856 NIS students, 193 NIS teachers, 821 U.S. students and 150 U.S. teachers participated in the School Linkage Program, which was shifted from FREEDOM Support Act funding to USIA base-budget funding. The program matched approximately 100 U.S. schools with 100 schools in nine of the twelve NIS countries (all except Azerbaijan, Tajikistan and Turkmenistan). Eight pairs of partner high schools in the U.S. and Russia focused their programs on health education, which was a priority theme in FY 1996. Other priority themes included civic education, environmental issues, volunteerism and agriculture.

Academic Studies Program: This program was also shifted from FREEDOM Support Act to USIA base-budget funding in FY 1996. Grants made under this program will partially subsidize the selection and exchange of some 180 NIS high school students, who will spend at least one semester in the United States and about 86 U.S. students, who will study in the NIS. In FY 1997, the Academic Year and Academic Studies Programs will be redesigned into one long-term program model to cut per-participant costs, boost participant numbers, and increase cost-sharing from private sources.

FY 1997 Programs: In late FY 1996, USIA awarded a \$50,000 grant to the American Council of Teachers of Russian (ACTR) to conduct a two-way exchange program involving five Russian students and a teacher (who will be chosen through a nationwide, publicly advertised civics competition conducted by a national educational newspaper) and five U.S. students and a teacher, who will be chosen through the national Olympiad of Spoken Russian. This program was proposed by USIA-Moscow as a way to promote and reward the study of civics and American studies in Russia. The Russian group will spend four weeks in the United States, including a week in Washington, two weeks at the Virginia Governor's Academy and a week in a Midwestern or Western state. The American group will spend three weeks in a Russian language and cultural program in Russia. The reciprocal nature of the exchange is intended to demonstrate the benefit to both countries of these types of youth-exchange programs.

USAID NIS EXCHANGES AND TRAINING (NET) PROJECT

Participant Training Programs

As of the end of FY 1996, USAID's NET Project had sponsored short-term U.S.-based training for 8,367 individuals from all twelve NIS countries. In FY 1996, 1,730 individuals received NET training. Many of these participants were senior-level officials, including deputy ministers of finance, television-station directors and presidents of national banks. The NET Project is designed to support a variety of USAID's country-specific strategic objectives, as well as the overall objectives of U.S. Government assistance programs in the NIS. The development of regional training plans by USAID's field missions in the Caucasus, Central Asia, Russia and the Western NIS, in collaboration with the Academy for Educational

Development (AED), the NET Project's contractor, ensured that each NET training course supported these objectives.

The NET Project also sponsored in-country follow-on activities for returned participants and their colleagues. As of the end of FY 1996, 3,289 professionals had attended NET follow-on programs, while several hundred more were scheduled to receive follow-on training. At the outset of the project, it was anticipated that at least 50 percent of returned participants would receive follow-on training. As the number of follow-on participants continues to grow, it is expected that the project will exceed the 50-percent follow-on target.

TOTAL NUMBERS OF NET PARTICIPANTS BY COUNTRY AS OF 9/30/96

Region	Trainees	Follow-on
RUSSIA	4,567	1,749
CENTRAL ASIA (Kazakstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan)	1,833	1,082
CAUCASUS (Armenia, Azerbaijan, Georgia)	398	146
WEST NIS (Belarus, Moldova, Ukraine)	1,569	312
TOTAL	8,367	3,289

Since 1995, the NET Project has been engaged in an ongoing and successful effort to reduce training costs. Additional cost-cutting initiatives implemented in May 1996 yielded significant results: the average cost of sponsoring a participant for NET training (excluding airfare) dropped 27 percent in 1996. The per-participant cost of NET training has dropped by 41.6 percent since FY 1994.

In FY 1996, the NET Project continued to have a significant impact on the course of political and economic reform in the NIS. For example, upon returning home, a Russian participant in a NET program on project management successfully implemented a plan to rescue a recently privatized beer company in Novgorod, Russia. In less than a year, he managed to turn a company that was \$500,000 in debt into a profitable private enterprise, and he subsequently raised over \$400,000 to support local businesses in Novgorod, as a result of which he was asked to serve as Novgorod's chief investment officer. Another participant from Tajikistan who participated in a NET program on economic restructuring for policy-makers subsequently helped develop Tajikistan's plan for agricultural development, which maps out policies and plans to modernize Tajikistan's agricultural sector, and was promoted to deputy minister of the economy.

NET Institutional Partnerships Project (NET-IPP)

In FY 1996, the \$29 million NET Institutional Partnerships Project (NET-IPP) continued to address the long-term need to develop modern, indigenous training institutions in the NIS (including technical schools, universities, professional associations and NGOs). Implemented by the International Research and Exchanges Board (IREX), NET-IPP has provided funding for 22 partnerships since early 1995, of which 16 are in Russia and six are in Ukraine. These partnerships focus on areas such as agribusiness, economic restructuring, NGO/PVO development, energy, environment, health and housing. In addition to requiring that each project share 25 percent of program costs and show evidence that the activities have a good chance for continuing beyond the two-year grant period, the project calls for each partnership to create informational products which can be used by other NIS institutions and by other USAID programs. With substantial hands-on involvement by IREX, the partnerships in Russia and Ukraine made great strides in fulfilling their goals, including co-developing educational curricula and instructional videos, upgrading the skills of faculty and staff, providing fee-based services to local entrepreneurs, and establishing self-sustainability plans.

The NET-IPP partnerships have come to be seen as agents for promoting reform, and USAID is encouraging its other programs to consider using NET-IPP partner institutions as training providers, thus capitalizing on the original investment. For example, the Center for Public Administration and Reform Assistance (CPARA) in Uzhgorod, Ukraine, provided NET follow-on training to the Office of the Deputy Mayor of Odesa, thus making the transition from a recipient institution to an assistance provider. An additional component of NET-IPP is the dissemination throughout the NIS of the materials developed by the NET-IPP partnerships. This dissemination effort will begin in early 1997 with the goal of reaching as many NIS institutions as possible, so that they can benefit from the contributions of the NET-IPP partnerships.

Washington State University (WSU) - Pushchino State University (PSU) Partnership

WSU and a consortium of schools in the California state university system received a \$2.2 million grant designed to support sustainable economic development and environmental protection in the South-Central European part of Russia through technology transfers. While this project continued to work towards its multiple goals of strengthening the ability of Pushchino State University to raise funds by establishing an office of grants and research management (the mainstay of every U.S. land-grant university), developing new curricula in the field of environmental education, establishing a joint master's degree program, developing several new environmental and agricultural technologies (as well as two antibiotics which control major plant diseases), and cultivating virus-free potato seeds for distribution in South-Central European Russia, the project met with some delays in setting up operations and eliciting cooperation from its Russian partners. Specifically, due to the turbulent nature of the scientific world and the banking environment in Russia, this project had trouble in resolving the critical issues of the intellectual property rights of the work done under the project and the registration of the land-grant university as a non-profit educational foundation. However, on the positive side, WSU's work with PSU on creating an office of grants and research management began to pay off in FY 1996 as PSU's researchers were awarded four grants ranging from \$10,000 to \$80,000.

U.S. DEPARTMENT OF COMMERCE - SPECIAL AMERICAN BUSINESS INTERNSHIP TRAINING (SABIT) PROGRAM

In FY 1996, the Commerce Department's SABIT Program continued to support economic restructuring in NIS through unique private-sector/U.S. Government partnerships which provided NIS managers and scientists with hands-on training in U.S. companies. SABIT programs encourage the development of long-lasting U.S.-NIS business ties and scientific collaboration, thus providing a "win-win" opportunity for U.S. host companies and the NIS managers they train. In fact, a majority of the U.S. companies that have participated in SABIT programs have maintained ongoing business relationships with their former interns. Moreover, participating U.S. companies have attributed more than \$65 million in export revenues to the business relationships facilitated by SABIT, with anticipated future sales of \$350 million. SABIT alumni have attested that the hands-on training gained in the United States honed their entrepreneurial skills by providing them with the business tools necessary to transform their firms into viable, market-oriented companies. Since 1992, SABIT has diversified from one training program into five specialized programs in addition to the original program.

In FY 1996, the SABIT Program also continued to diversify its programs geographically by increasing the number of interns from NIS countries other than Russia. SABIT has achieved notable results in this regard: from FY 1993 to FY 1996, the proportion of non-Russian SABIT interns increased from 24 percent to 42 percent. However, geographical diversification continued to be a challenge, since many of the U.S. companies interested in doing business in the NIS continued to focus mainly on Russia and were hesitant to consider sponsoring interns from other NIS countries. A cumulative country breakdown of SABIT interns is provided below:

TOTAL NUMBER OF SABIT INTERNS TRAINED AS OF SEPTEMBER 30, 1996

Armenia	9
Azerbaijan	5
Belarus	37
Georgia	16
Kazakstan	52
Kyrgyzstan	15
Moldova	12
Russia	588
Tajikistan	6
Turkmenistan	5
Ukraine	133
Uzbekistan	16
TOTAL	894

Original SABIT Program: The original SABIT program provides grants to U.S. companies to help defray a portion of the costs associated with conducting three- to six-month U.S. training programs for NIS managers and scientists. The U.S. host firm pays for visa fees, housing, local transportation, medical insurance, and the training itself. The cost-sharing provided by the host companies is typically equal to or greater than the amounts of their grants, making the SABIT Program a highly leveraged, cost-effective program. In FY 1996, 285 interns arrived in the United States for SABIT training. As of the end of FY 1996, SABIT had awarded grants to over 300 U.S. companies and had successfully trained over 890 NIS executives and scientists. Examples of the impact of these programs are provided below:

- Representatives from the Astronautics Corporation, a SABIT host company, reported that a \$1 million contract which they signed six weeks after hosting SABIT interns was a direct result of the efforts of their former interns, who upon returning home had given presentations on Astronautics' products and sold them to Russian aircraft manufacturers. As of the end of FY 1996, Astronautics had exported \$500,000 worth of equipment, with anticipated future sales of \$7 to \$8 million.
- The \$5,000 training investment made by the SABIT host company SAITCO had created over \$400,000 in U.S. exports by the end of FY 1996 and was keeping a growing number of Kazakstanis employed. SAITCO's office in Almaty is managed by its SABIT alumni and is the only authorized dealer for Chrysler-Jeep automobiles in Central Asia.

Specialized Programs: In addition to the original program, SABIT has established five specialized programs which provide group training with interpreters to key managers and scientists who do not speak English and would otherwise have difficulties participating in U.S.-based training. SABIT's specialized programs are also designed to train a large number of business executives, especially from NIS countries other than Russia. Two new specialized SABIT programs got off to a successful start in FY 1996, expanding SABIT's ability to train NIS executives and further long-term U.S.-NIS cooperation in a cost-effective manner.

The SABIT Financial Services Program will provide 100 financial services managers with two months of U.S.-based training in Western financial principles. During the last quarter of FY 1996, the program hosted its first group of 25 bankers from eleven NIS countries. Bankers from private NIS banks trained Chase Manhattan, Crestar, Republic National Bank and several smaller banks which gave them an opportunity to observe community banking. The NIS bankers confirmed that as a result of their training they gained a solid understanding of the U.S. banking system, and many of them established correspondent relationships between their home institutions and their U.S. host banks. However, it was not easy for SABIT program staff to convince the U.S. banks that hosting interns from the NIS would be worthwhile. The SABIT staff spent considerable time explaining to the prospective U.S. host banks that by helping to develop stable banking institutions in the NIS, they would be doing a service to their clients, who would, as a result, find it easier to do business in the NIS.

The SABIT Environmental Technology Program is a comprehensive two-month program designed to train a total of 50 NIS managers, scientists, engineers and consultants in the development of environmental technologies, environmental clean-up programs and environmental consulting services in their home countries. This program also promotes market-based reform and improves the competitiveness of NIS companies in global markets by providing them with a fundamental understanding of the commercialization of research and development, sales and marketing, customer service and strategic development in the field of environmental technology. The first of three training sessions was held in September for 17 participants from the hazardous-waste clean-up industry, representing eleven of the NIS countries. A two-week Washington-based orientation session provided the participants with an intensive overview of the U.S. hazardous-materials industry. Presentations were given by U.S. Government agencies, industry associations, and legislative staff involved in drafting environmental laws and regulations. The orientation was followed by a six-week training program with companies and agencies involved in hazardous-waste clean-up, including site visits to the Aberdeen Proving Grounds, the Environmental Protection Agency's (EPA) Emergency Response Team Center, a U.S. Department of Energy site in Ohio, and the EPA's National Laboratory. Company-based internships were provided by Jet Blast; Phytotech; Molten Metal Technology; Environmental Alliance; ESI, Incorporated; TechLaw; Resource International; OHM Remediation Services Corporation and Parsons Engineering Science.

The SABIT Standards Training Program, in collaboration with the National Institute of Standards and Technology (NIST), trained an additional 81 standardization, product certification, laboratory accreditation and regulatory experts from the NIS under its comprehensive standards program in FY 1996, bringing the cumulative number of participants in the program to 146. The SABIT Standards Program focuses on standards as a basis for exchanging knowledge of manufacturing practices between U.S. companies and NIS countries, with the goal of increasing the volume of U.S.-NIS trade. The program provides opportunities for U.S. companies to develop effective business relationships in the NIS, and helps NIS standards experts broaden their understanding of the commercial conditions that determine the behavior of companies in a market-based economy. In FY 1996, the SABIT Standards Program trained 81 NIS standards experts from the aerospace, food processing, oil and gas, and construction sectors, and achieved the following illustrative results:

- After receiving SABIT training, a senior-level Russian participant in the session on food processing and packaging standards revised legislation which he had been drafting that would have curbed imports of U.S. products. As a member of the organization which represents food-processing cooperatives and entrepreneurs in Russia, he came to the conclusion that increased mutual understanding of each other's standards and quality-control regulations will increase trade between Russia and the United States, and will facilitate the resolution of trade disputes through bilateral mechanisms.
- A U.S. telecommunications company that had submitted a bid for a \$10 million contract with Kyrgyzstan's Ministry of Telecommunications was awarded the contract after a key Ministry official involved in the project participated in a SABIT program on telecommunications standards. The U.S. company subsequently hosted a follow-up visit by that same official this past summer.

The SABIT Defense Conversion Training Program, in collaboration with the Commerce Department's Bureau of Export Administration (BXA), trained 71 defense-enterprise managers from Kazakstan, Russia, Ukraine and Belarus. While the program achieved notable successes in FY 1996, SABIT program staff continued to experience difficulties in identifying U.S. companies willing to train managers from Belarus, due to its troubling political and economic environment. Eleven U.S. companies and two universities hosted the managers during three training sessions, which achieved the following illustrative results:

- A former SABIT intern from Ukraine was appointed director general of UKR-West, a joint venture between the American Industrial Development Corporation (AIDCO) and the Ukrainian company Orizon, which used to produce military satellite communications equipment but is now beginning to assemble energy-efficient windows and doors for the Ukrainian and NIS markets. It is estimated that UKR-West's revenues will reach \$10 million over the next few years, with the U.S. and Ukrainian partners receiving 51 and 49 percent of the profits, respectively.

- With the help of their former SABIT Defense Conversion Program interns, Senco/Lance Marketing will begin manufacturing spares, nails and fasteners with their Ukrainian joint-venture partner, a machine-works plant in Kharkiv, in early 1997. In addition to being sold in Ukraine, these products will be exported to China and Korea.

Follow-On Activities: As part of its effort to foster long-term U.S.-NIS business relationships, the SABIT Program provided several follow-on support activities and services for SABIT interns after they had returned to the NIS, including five SABIT Alumni Network meetings in FY 1996, an alumni directory, a newsletter, and electronic access to program information via SABIT's homepage on the World Wide Web, which was visited more than 36,000 times in FY 1996. SABIT added a discussion group to its homepage, enabling SABIT alumni and U.S. host companies to stay in contact with one another and discuss a variety of business-related topics. The SABIT Alumni Network began to take on a life of its own, as alumni customized the organization to fit their business needs. Many SABIT alumni have provided in-kind contributions to the SABIT Alumni Network, including event space, copying services, the organizing and coordinating of presentations by guest speakers, and other services.

FY 1997 Programs: The SABIT Standards Program will provide three additional training sessions in FY 1997 in the areas of telecommunications, power generation, and food processing. By spring 1997, the SABIT Environmental Technology Program will complete its three training sessions, which will cover hazardous material clean-up, wastewater management, and oil and gas clean-up. By June, the SABIT Financial Services Program will complete three training sessions on the topics of insurance, accounting, and securities. The original SABIT Program opened a *Federal Register* announcement in fall 1996, allowing U.S. companies to compete for grants to train managers and scientists from the NIS. In addition, during the second half of FY 1997, SABIT plans to begin a regional development program focusing on the Russian Far East, Central Asia and the Caucasus.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - COCHRAN FELLOWSHIP PROGRAM

In FY 1996, USDA's Cochran Fellowship Program continued to provide short-term agricultural training to NIS agriculturists and policy-makers. Three- to five-week training programs were conducted in the United States for mid- and senior-level specialists and administrators, with a dual emphasis on helping them develop their home countries' agricultural food systems, while at the same time strengthening agricultural trade linkages between U.S. and NIS agribusinesses. Cochran training programs were implemented in collaboration with various USDA agencies, agricultural trade and market-development associations, universities and agribusinesses.

In FY 1996, the Cochran Fellowship Program used FREEDOM Support Act (FSA) funding to provide training to 177 participants from all 12 NIS countries, with an additional 46 participants receiving training during the October-December period. A total of 420 participants have received FSA-funded training under the Cochran Fellowship Program since FY 1994: 32 from Armenia, 10 from Azerbaijan, 20 from Belarus, 16 from Georgia, 32 from Kazakstan, 31 from Kyrgyzstan, 34 from Moldova, 137 from Russia, 27 from Tajikistan, 25 from Turkmenistan, 32 from Ukraine, and 24 from Uzbekistan.

In FY 1996, an additional 79 NIS participants received Cochran training funded by USDA's Emerging Markets Program (EMP), with another two participants receiving training during the first quarter of FY 1997. Since FY 1993, the Emerging Markets Program (formerly known as the Emerging Democracies Program) has funded 497 NIS participants through the Cochran Fellowship Program. Only Belarus, Kazakstan, Russia and Ukraine qualify for funding under the Emerging Markets Program.

Cochran training programs covered a wide range of topics in FY 1996, including agricultural policy, land tenure, agricultural bankruptcy, agricultural finance and banking, food processing and marketing, food safety, international trade, wholesale market development, food wholesale and retail, and cooperative and agribusiness management. The quality of participants in the Cochran Program has improved with each passing year. Compared to FY 1993, Cochran participants now have more specialized interests in starting up their own businesses, more influence on the policy-reform process, and are more interested in establishing joint ventures and/or trading with U.S. companies. An outside evaluation of the Cochran Fellowship Program in Russia, Ukraine, Kazakstan and Uzbekistan found that the program has provided

effective technical and trade-related training, and has "successfully recruited a group of NIS citizens who are generally reform-minded, market-oriented, democratic, and proactive."

Former Cochran participants have used their training to start new private enterprises—including grocery stores, agribusiness consulting companies, restaurants, farms, farm cooperatives and farmers' markets—and to improve existing agribusinesses. Cochran alumni in Russia have also had a direct impact on policy reform, including on the new land code, a law on rural land mortgages, a law providing a legal basis for agricultural cooperatives, and the privatization of state-owned collective farms.

As for the promotion of agricultural trade, Cochran alumni have facilitated millions of dollars in U.S. agricultural product and equipment exports. For example, a Russian chocolate manufacturer imported over \$1.2 million in U.S. almonds; a Russian fruit company purchased U.S. fruit ripening equipment and is importing from American firms over 6 vessels per month of fruit; a Russian Far East grocery store imported over \$220,000 of U.S. fruit and vegetables on a trial basis and expects to buy more; other supermarkets organized in-store promotions of U.S. high-value products, and one store bought two container-loads of U.S. cookies; an Uzbek-American joint venture purchased \$130,000 worth of U.S. groceries for the opening of their new grocery store; a Cochran alumnus from Kazakstan helped facilitate the importing of John Deere tractors into that country; and a Russian grain dealer purchased over 120,000 tons (\$20 million worth) of U.S. wheat after participating in the Cochran Program.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - FACULTY EXCHANGE PROGRAM

In FY 1996, USDA's Faculty Exchange Program (FEP) continued to support sustained free-market reform by providing training to NIS agricultural educators and supporting linkages between U.S. and NIS educational institutions, focusing on curriculum development and faculty strengthening in the areas of agricultural economics and marketing, agribusiness and agrarian law. The FEP has three main objectives: (1) to promote the development of sound agricultural policy, as well as effective and competitive agricultural marketing and business systems; (2) to broaden NIS citizens' understanding of a market economy by improving the quantity and quality of academic and adult-education programs in agricultural economics and marketing, agribusiness and agrarian law; and (3) to develop the ability and confidence of participating faculty to evaluate and revise curriculum and courses through the application of basic principles of learning and curriculum development. To accomplish these objectives, FEP conducts U.S.-based training programs in collaboration with state agricultural universities and land-grant colleges, as well as with the private sector.

In December 1995, the first group of 21 FEP participants from Russia, Ukraine and Kazakstan completed the U.S. portion of their program. Twelve faculty members from Russia (representing nine institutions), seven from Ukraine (representing four institutions), and two from Kazakstan (representing one institution) participated in intensive five-month programs in the following areas: management of agricultural enterprises, economics of agricultural machinery, economics of food processing, agribusiness enterprise analysis, and agrarian law. Participating U.S. universities included the University of Arkansas, Purdue University, the University of Missouri, the University of Nebraska and Colorado State University. In addition to attending classes and discussing curriculum development issues with their U.S. counterparts, FEP participants prepared revised curricula for their NIS home institutions. FEP compiled a Russian-language curriculum development manual prepared by its participants, which was duplicated and distributed, and will serve as an excellent resource for other progressive NIS agricultural institutions interested in revising their curricula and teaching materials. FEP participants also visited other universities, as well as U.S. agribusinesses. A group of FEP participants hosted by the University of Minnesota worked with an extension specialist to learn about the services that these specialists provide to farmers and agribusinesses. Another group visited Land O'Lakes to observe first-hand the management and functions of a major agricultural cooperative. A group of participants interested in the economics of farm machinery and hosted by the University of Missouri was placed individually with John Deere dealerships throughout the state.

Another important component of the FEP was a two-week visit to the United States in November 1995 by the rectors of eleven of the institutions represented by FEP participants. During this visit, the rectors had an opportunity to observe how universities operate in a decentralized system within a democratic society; to study the relationship of the U.S. university system to federal and state governments, including how it is financed and its relationship with agribusinesses and the rural sector; to visit agribusinesses and national

university associations; and to develop working relationships with U.S. university officials. The rectors also met with and received reports from the FEP participants.

- FEP alumni and their home institutions maintained continuing relationships with their U.S. host institutions. For example, Pioneer Farm Management Service (PFMS) in Nebraska provided an internship for a faculty member from Tyumen Agricultural Academy in Tyumen, Russia. PFMS is continuing to provide consultations and other forms of support to its Tyumen counterparts, helping them develop their continuing education program in farm management, which in turn is providing training and consulting assistance to the region's agribusinesses.
- Efforts were being made to develop more effective collaboration between U.S. and NIS agribusinesses. For example, a faculty member at the Russian Engineering Academy of Management and Business organized a series of business-management seminars for representatives of the John Deere Company. Meanwhile, the assistant director of the Continuing Education Center of the Nizhny Novgorod State Agricultural Academy presented seminars on U.S. agribusiness for the leaders of agricultural enterprises in the Nizhny Novgorod Oblast (Region).
- Several of the FEP alumni were providing consulting services to private enterprises in their home region, helping them carry out market-research projects and improve their management practices in such a way as to make their enterprises more efficient in a market-oriented economy.

Another important aspect of the FEP was just getting under way in late FY 1996: namely, follow-on visits by U.S. host-university professors to the FEP participants at their home institutions. These follow-on visits are designed to provide assistance with the adoption and implementation of the new curricula, revised courses, methods and materials developed by the FEP participants, as well as with outreach activities to farmers and agribusinesses. The first follow-on visit took place in early October 1996. In FY 1997, follow-on activities with the first group of FEP participants will continue, including additional visits by U.S. faculty to Russia, Ukraine and Kazakhstan. The FEP also received additional funding for the training of 8 to 10 faculty members from Ukrainian institutions, for which applications were distributed in fall 1996 and interviews will be held in early 1997.

DEMOCRACY PROGRAMS

USAID DEMOCRATIC PLURALISM INITIATIVES

By the end of FY 1996, a total of \$229 million had been obligated, including \$48 million during FY 1996, and a total of \$162 million expended under USAID's Democratic Pluralism Initiatives to promote democratization by supporting democratic processes and institution-building, with a special emphasis on promoting the rule of law, democratic local governance, and a strengthened civil society and independent media.

Political Process Programs: In FY 1996, grant activities implemented by the International Republican Institute (IRI), the National Democratic Institute (NDI), the Free Trade Union Institute of the AFL-CIO (FTUI), and the International Foundation for Election Systems (IFES) continued to facilitate the strengthening of local, regional and national democratic institutions and processes by supporting the development of political parties, civic organizations and independent labor unions, and promoting free and fair elections. IRI, NDI and FTUI worked with democratic reform-oriented parties to improve their political skills and their capacity to provide constituent services, as well as to help them increase coordination and communication between their national, regional and local organizations. In FY 1996, Armenia, Azerbaijan, Kyrgyzstan, Kazakhstan and Russia also received election-related training and technical assistance which complemented the ongoing long-term political process programs. IRI, NDI, and FTUI worked with political parties and civic organizations to train poll workers and monitors, and to develop campaign skills, while IFES worked mainly with government officials and central election commissions and NGOs to address shortcomings in existing electoral laws and to promote the transparency and accountability of elections. All four of the grantees organized extensive voter- and civic-education programs. The fact that an increasing number of political parties, candidates, independent trade unions, and civic organizations

participated in political processes in FY 1996 was an encouraging sign that democratic reform was making progress in the NIS.

Rule-of-Law Programs: Throughout the NIS in FY 1996, the U.S. Government continued to support and train nongovernmental organizations (NGOs) whose mission is to advocate on behalf of human rights, promote the development of transparent participatory legal and legislative processes, and enhance the free flow of legal information, all of which will help protect and promote reforms and will provide a check against arbitrary government action. The Rule-of-Law Consortium, the American Bar Association's Central and Eastern European Law Initiative (ABA/CEELI), and the American Legal Consortium (ALC) carried out a variety of complementary legal reform activities in FY 1996. These organizations helped establish independent, effective court systems by providing training to judges, prosecutors and defense attorneys; helped establish independent bar associations; helped develop the capacity to provide continuing legal education; provided expert commentary on draft commercial and criminal codes and draft constitutions; and promoted grassroots legal reform by supporting public law clinics and local nongovernmental organizations (NGOs).

- **Judicial Reform Programs (Russia/Ukraine):** The USAID-funded Associates in Rural Development/Checchi Consortium (ARD/Checchi), in collaboration with the Ohio and Vermont Supreme Courts and Bars, and the National Judicial College, continued to help establish reformed judicial systems that will enable judges to resolve economic disputes and enforce the law effectively, efficiently and fairly, and to protect citizens from arbitrary government actions. By the end of the program, all of Russia's and Ukraine's commercial law judges will have been trained in market-oriented legal reform. This program helps address the kinds of issues that are hampering Russian, Ukrainian and foreign business investments and, consequently, economic growth.
- **Commercial Law Project (Kazakstan/Kyrgyzstan):** ARD/Checchi initiated a Commercial Law Project in Kazakstan and Kyrgyzstan designed to address the need for a legal environment that supports further privatization and the conduct of private enterprise. Training and technical assistance was provided to judges, attorneys and government officials.
- **Criminal/Commercial Law Training:** ABA/CEELI and ARD/Checchi continued to provide training to lawyers and judges throughout the NIS on their countries' new commercial and criminal laws. ABA/CEELI and ARD/Checchi worked towards institutionalizing this training by collaborating with NIS law schools and bar associations to develop continuing legal education programs.
- **Criminal Justice Reform** (see Russia country assessment)

Parliamentary Development Programs: USAID continued to facilitate greater parliamentary transparency and independence in the NIS countries in order to help elected policy-makers develop reform-oriented policies and laws, and to promote the concept of a legislature that functions as a co-equal branch of government and serves as an effective check against the executive branch. In the NIS countries, however, parliamentary effectiveness continued to be impeded by the lack of adequate technical infrastructure. USAID funded technical support to increase the institutional capacity of the parliaments of Georgia, Russia and Ukraine. (see individual country assessments).

USAID Municipal Finance and Management (MFM) Program: In FY 1996, USAID continued to help municipal governments in several NIS countries become more transparent, accountable and responsive. A consortium led by the USAID-supported Research Triangle Institute (RTI) continued to implement the NIS-wide MFM Program, under which pilot programs were completed with the municipal governments of eight demonstration cities: Moscow, Nizhny Novgorod and Vladivostok in Russia; Lviv, Ternopil and Kharkiv in Ukraine; Atyrau, Kazakstan; and Karakol, Kyrgyzstan. These pilot programs were designed to introduce new management and financial practices and to help upgrade service delivery. MFM assistance in Vladivostok, Russia, and two municipalities in Central Asia (Atyrau, Kazakstan and Karakol, Kyrgyzstan) wrapped up as scheduled, and plans were made for an expansion of MFM management, finance and service programs to several additional municipalities in Russia and Ukraine. After traveling to the United States to meet with their U.S. counterparts, municipal officials from the eight MFM demonstration cities worked to increase their governments' transparency and accountability. MFM advisors helped municipal officials prepare presentations of their budgets, identify spending priorities and

account for municipal expenditures by way of television programs, town meetings and newspaper articles. (see Kyrgyzstan, Russia and Ukraine country assessments)

NGO Development Programs: USAID continued to support the development of nongovernmental organizations (NGOs) throughout the NIS, helping them to increase their capacity to provide services to participate in public policy-making in their communities. USAID-funded U.S. private voluntary organizations (PVOs) increased the technical and institutional capacity of their NIS counterparts by training trainers in leadership, fundraising and networking; and provided seed grants for the implementation of small projects.

- **NIS-U.S. Women's Consortium (Russia/Ukraine):** The NIS-U.S. Women's Consortium established by Winrock International, a USAID grantee, enhanced the development and operations of a united group of women's NGOs in Russia and Ukraine.
- **World Learning:** Another USAID grantee, World Learning, supported the efforts of U.S. PVOs working with local NGOs in the NIS to increase the latter's capacity to address social-service needs, create income-generating opportunities for vulnerable and needy populations, and participate in public policy-making.
- **Counterpart Consortium (Belarus/Moldova/Ukraine):** In Belarus, Moldova and Ukraine, the Counterpart Consortium established service centers to facilitate the training of local NGO and PVO staff in project design and organizational management, as well as in networking, communication and participation in public policy-making. Counterpart provided seed grants to local NGOs in order to enable them to fund services to needy populations hit hard by the breakdown of social-service delivery. In FY 1997, USAID will introduce a new NGO-support program in these three countries, designed to carry on the work begun by the Counterpart Consortium. A key emphasis of this new activity will be to help local NGOs develop the skills to become financially self-sustaining after foreign assistance phases out.

Independent Media Programs: In FY 1996, USAID continued to support the development of independent newspapers and electronic broadcast media throughout the NIS by providing journalists with training, technical assistance and equipment. The Independent Television (ITV) Program managed by USAID grantee Internews provided training and technical assistance to independent television stations and helped develop an alternative television news distribution system in the NIS. Many of the stations involved in this alternative distribution system give viewers throughout the NIS their only exposure to objective information on current events. (see Russia and Ukraine country assessments)

CONGRESSIONAL RESEARCH SERVICE (CRS) - PARLIAMENTARY DEVELOPMENT PROGRAM

The collapse of the Soviet Union left the parliaments of the NIS countries facing the formidable task of transforming themselves into modern democratic legislatures, but lacking the resources and experience needed to do so. At the request and under the direction of the U.S. Congress, the Congressional Research Service (CRS) of the Library of Congress began a \$2.9 million parliamentary assistance program in Ukraine in September 1993 and a \$2.0 million program in Russia in May 1994. These CRS programs are based on the premise that members of parliament and their staffs need to be able to access readily independent sources of information in order to be able to pass well-conceived and well-drafted legislation and to provide effective legislative oversight of the executive branch. To this end, CRS has supplied computer equipment and library materials to parliamentary support organizations and training to both members of parliament and their staffs. (see Russia and Ukraine country assessments)

U.S. DEPARTMENT OF STATE - ANTI-CRIME TRAINING AND TECHNICAL ASSISTANCE (ACTTA) PROGRAM

Since the collapse of the Soviet Union in 1991, a sharp increase in organized crime and other types of criminal activity has led many NIS citizens to equate the transition to a democratic, market-based system with an overall breakdown in law and order, and has begun to pose a threat to the international community

as well. In late FY 1994, in recognition of the transnational dangers posed the rise of crime in the NIS and Central Europe, the U.S. Government established the Anti-Crime Training and Technical Assistance (ACTTA) Program, an interagency effort administered by the Office of International Criminal Justice of the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL/ICJ) which is designed to help NIS and Central European law enforcement officials develop new techniques and systems to cope with crime while simultaneously strengthening the rule of law and respect for individual rights. The NIS component of the ACTTA Program has three major objectives:

- to develop partnerships with NIS law enforcement agencies to control organized crime and specific major crime problems negatively affecting the growth of free-market economies and democratic governments;
- to ensure, through international law enforcement cooperation, the U.S. law enforcement agencies succeed in rolling back Russian organized crime's move into the United States; and
- to focus interagency training and technical assistance on three areas of mutual concern to the U.S. and NIS governments—international organized crime; financial crimes and drug trafficking—and on promoting institutional development to expand the capacity of NIS law enforcement agencies to address these problems.

The State Department's Office of International Criminal Justice coordinates the work of thirteen federal agencies which participate in the ACTTA Program: the Department of Justice (DOJ) and its International Criminal Investigative Training Assistance Program (ICITAP); the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the U.S. Secret Service (USSS); the U.S. Customs Service (USCS); the Internal Revenue Service (IRS); the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); the U.S. Coast Guard (USCG); the Department of Commerce; the State Department's Bureau of Diplomatic Security; and the Federal Law Enforcement Training Center (FLETC).

In FY 1996, the ACTTA Program trained approximately 1,970 law enforcement personnel from Belarus, Georgia, Kazakstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan, bringing the cumulative number of personnel trained to approximately 3,850. A total of 107 officers from Belarus, Kazakstan, Kyrgyzstan, Moldova, Russia and Ukraine participated in an eight-week mid-level manager training program at the International Law Enforcement Academy (ILEA) in Budapest, which was in its second year of operations.

In FY 1996, the ACTTA Program moved its strategic plan beyond the "Nuclear Four" (Belarus, Kazakstan, Russia and Ukraine) to include Georgia, Moldova, Kyrgyzstan and Uzbekistan. The ACTTA Program focused an increased amount of attention on combating financial crimes in Russia and Ukraine. ACTTA also offered new training programs for the NIS countries in combating auto-theft and insurance fraud, as well as in alcohol and tobacco licensing and taxation.

The Federal Bureau of Investigation (FBI), the Criminal Investigation Division of the Internal Revenue Service (IRS) and the U.S. Secret Service report that cooperation fostered by the ACTTA Program has helped them prosecute criminal cases in the United States and has helped the ministries of internal affairs of the NIS countries to conduct investigations. For example, in June, two officials from Uzbekistan's Ministry of Internal Affairs and the Office of the Prosecutor participated in a ten-day FBI practical case training program in New Jersey. The two officials subsequently helped the FBI's Newark division office locate two fugitives who were wanted for murder in Uzbekistan. As a result of searches conducted at the fugitives' residences, the FBI and its Uzbek counterparts were able to collect significant intelligence information on the criminal group to which the fugitives belonged.

U.S. Department of Justice - International Criminal Investigative Training Assistance Program

(ICITAP): ICITAP brought four police officers from Kazakstan, Kyrgyzstan, Ukraine and Uzbekistan to the United States to participate in a specially designed five-week internship on democratic and community policing, which included the following components: four community-policing seminars, an analysis of multi-jurisdictional drug enforcement, a review of jury and bench trials, a field study of community policing, a review of crime analysis, a review of federal- and state-funded criminal justice programs, and hands-on

training with host officers in local community policing and crime-prevention initiatives. ICITAP will follow-up with these NIS officers and provide in-country training in community policing.

ENERGY AND ENVIRONMENTAL PROGRAMS

U.S. DEPARTMENT OF ENERGY (DOE) - NUCLEAR SAFETY PROGRAMS

DOE Soviet-Designed Reactor Safety Program

In FY 1996, DOE continued to work with other donor countries to improve the safety of Soviet-designed nuclear power plants in the NIS by strengthening their operational and physical condition, enhancing safety-related practices and supporting the development of an indigenous nuclear-safety infrastructure. As of the end of FY 1996, more than 150 projects had been initiated in eight countries in the NIS and Central Europe, including Armenia, Russia and Ukraine. More than 35 projects were completed in the areas of management and operational safety, engineering and technology, plant safety evaluation, and fuel-cycle safety. Safety-related activities were conducted in collaboration with host-country nuclear power plants, scientific and technical institutes, and government agencies. Basic ordering agreements had been signed with 11 nuclear power plants and 16 scientific institutes and government agencies in the host countries. As of the end of FY 1996, an additional five basic ordering agreements had been negotiated with nuclear power plants and sent to the plants for signature.

Fire Safety Upgrades: In collaboration with its Russian and Ukrainian counterparts, DOE helped develop guidelines for the evaluation of reactor-core fire protection, which will enable analysts working at Soviet-designed reactors to assess fire hazards and identify the most important changes to be made in procedures and equipment, as well as the most cost-effective way of doing so. In addition to helping develop the guidelines, DOE provided fire-safety equipment to several plants in Russia and Ukraine. Fire-retardant materials were provided to nuclear power plants in Smolensk, Russia, and Zaporizhzhya, Ukraine, in order to coat electrical cables and to seal the openings through which cables pass from room to room. Fire-resistant coatings were also applied to floors and structural steel at the Smolensk plant. Technology for the manufacturing of fire doors was successfully transferred to the Ukrainian company Asken and the Russian company AtomRemMash. A total of 122 fire doors were manufactured in Ukraine for the Zaporizhzhya plant, with another 250 slated for the Chornobyl plant, while 400 doors were ordered for the Smolensk plant.

Safety System Upgrades: Five sets of safety-grade direct-current (DC) batteries along with switchboards and seismically qualified racks were installed at the Number 1 and 2 Units at the Kola Nuclear Power Plant in Russia. Similar batteries were also delivered to a nuclear power plant in Kursk, Russia. In addition to the batteries, the Kursk plant received hand-held ultrasonic test equipment for detecting leaks in the piping of reactor cooling systems, as well as an emergency water-supply system with a mobile pumping unit. Pipe lathing and welding preparation machines were delivered to all Soviet-designed RBMK plants, enabling them to make cuts and prepare welds with the precision necessary to repair main coolant piping.

Fuel Storage Upgrades: Dry-cask storage equipment needed to resolve the Zaporizhzhya nuclear power plant's spent-fuel storage problem was delivered along with a fuel transporter. The plant's personnel were trained to operate the transporter and to manufacture the casks, while Ukrainian nuclear regulators were trained in the licensing of dry-cask storage systems. After completing their training, the Zaporizhzhya plant's personnel poured a mock-up concrete cask that met all safety and regulatory requirements.

Emergency Operating Instructions / Management and Operational Controls: The first of 22 system-based emergency operating instructions (EOIs) were implemented at the Novovoronezh nuclear power plant in Russia. In addition, the first draft EOIs were completed for the pilot VVER-1000 reactors at Balakovo, Russia, and Zaporizhzhya, Ukraine. In addition, approximately 50 percent of the first draft EOIs were completed for the VVER-440 pilot plants at Kola, Russia, Ukraine's Rivne plant and the RBMK pilot plant in Smolensk. Meanwhile, draft management and operational guidelines for preparing operating procedures for Soviet-designed nuclear power plants were completed. Ten plant-specific procedures

were implemented at the Balakovo plant, and nine at the Zaporizhzhya plant. Six full-scope simulators and three analytical simulators were being developed for nuclear power plants in Russia and Ukraine. In addition, a contract was signed with a U.S. company to provide safety parameter display systems—computers which automatically and graphically display the status of critical safety functions and determine whether these functions are operating within safe ranges—to RBMK reactors in Russia and Ukraine. The Kursk's plant's Unit Number 2 reactor will be the first to receive such a system, with installation scheduled for March 1997. The Kursk plant's display system, for which ten digital-processing units were assembled in Russia, will be used as a prototype for developing custom-designed systems for other RBMK reactors.

Training Programs: Training and exchange programs were an important component of DOE's Soviet-Designed Reactor Safety Program in FY 1996: 219 employees from 14 nuclear power plants and 20 nuclear agencies in the NIS and Central Europe visited 12 U.S. nuclear power plants and 18 U.S. Government agencies and private companies. Nuclear training centers established at the Balakovo plant in Russia and the Khmelnytsky plant in Ukraine successfully trained more than 800 nuclear power plant workers. At the Balakovo training center, all 18 planned courses were begun, of which 13 were completed, while at the Khmelnytsky training center, 11 of the 12 planned courses were begun, of which seven were completed.

U.S. NUCLEAR REGULATORY COMMISSION (NRC) - NUCLEAR SAFETY REGULATION PROGRAM

The NRC's Nuclear Safety Regulation Program was jointly developed by the NRC and its counterpart regulatory organizations in Russia and Ukraine. In FY 1996, the Russian State Committee for the Supervision of Nuclear and Radiation Safety (GosAtomNadzor or GAN) and the Nuclear Regulatory Administration (NRA) of the Ukrainian Ministry of Environmental Protection and Nuclear Safety continued to work with the NRC to help Russian and Ukrainian nuclear regulators develop safety standards and procedures. The NRC's efforts were focused on increasing the regulatory authorities' institutional capacity and stature, so as to ensure the operational safety of their countries' nuclear reactors. Based on criteria developed by the NRC to evaluate the implementation of its projects, a significant portion of the NRC's assistance activities have fulfilled a majority of the project-level results measures. During the latter part of FY 1996, the NRC continued to implement mutually agreed-upon program activities with its Russian and Ukrainian counterparts, although some of these activities were hampered or delayed by host-country customs officials and insufficient travel funds in the host-country's budget.

In FY 1996, the NRC trained over 170 Russian and Ukrainian nuclear regulators in the United States, as well as additional NIS regulatory personnel during the NRC's technical visits to the NIS. Since the program's establishment in late 1992, the NRC has trained over 500 Russian and Ukrainian nuclear regulators in the United States.

In FY 1997, the NRC will continue to provide the necessary regulatory assistance to GAN and NRA. Project activities involving long-lead procurement of equipment are expected to continue, but a number of NRC programs are concluding, pending further requests from the recipient organizations. The NRC anticipates providing assistance to GAN in support of the Russian Plutonium Production Reactor Core-Conversion Project, to ensure that reactor safety receives an appropriate amount of attention. In addition, the NRC will discuss with the NRA a program proposal to develop Ukraine's regulatory capabilities for the licensing and review of nuclear fuel. A significant NRC effort will continue in conjunction with participating Russian institutes to ensure that the probabilistic risk assessment of the Kalinin NPP attains its goal of identifying design- and plant-operational vulnerabilities in order to reduce the risk of an accident that damages the reactor core. The results of the Kalinin PRA will be shared with all countries operating Soviet-designed reactors. (see also Armenia, Kazakstan, Russia and Ukraine country assessments)

USAID ENERGY SECTOR PROGRAMS

By the end of FY 1996, USAID had obligated a total of \$356 million, including \$51 million in FY 1996, and expended a total of \$258 million to help the NIS countries implement market reforms in their energy sectors and improve the safety of their civilian nuclear power plants. USAID's energy sector programs for the NIS focused on five key areas:

- rationalizing energy prices and developing sound national energy policies;

- improving energy efficiency and reducing emissions in industry, buildings and municipal heating systems;
- restructuring, commercializing and privatizing specific energy subsectors;
- increasing the safety of Soviet-designed nuclear reactors; and
- promoting energy trade and integration with Western Europe and international energy markets.

Energy-Sector Restructuring Programs: In FY 1996, the Governments of Armenia and Georgia began restructuring their countries' electric-power sectors by separating distribution from generation and transmission. USAID-funded advisors helped the Armenian Government consolidate its distribution companies and prepare an energy law. Similarly, the Georgian Government and Parliament looked to USAID for help in establishing the legal and regulatory framework need for energy-sector privatization. Restructuring and privatization of the electric-power sector also moved ahead in Kazakhstan, with the privatization of 30 percent of the country's generating capacity, including the sale of Kazakhstan's largest plant to a U.S. corporation. In spring 1996, Kyrgyzstan became the first country in Central Asia to appoint an independent regulatory authority, and the Government of Kyrgyzstan continued to move towards power-system restructuring and privatization. USAID assistance was critical in both Kazakhstan and Kyrgyzstan, and USAID will undertake some additional efforts in FY 1997 to help these two countries implement energy-sector reforms and develop a sounder legal and regulatory framework. Meanwhile, the Government of Ukraine continued to restructure completely its power system into a decentralized competitive system. USAID helped Ukraine's National Electricity Regulatory Commission issue licenses, define tariff methodologies and initiate oversight. USAID-funded advisors also helped Ukraine's new - generating companies to enter the new wholesale power market, and distribution companies to improve their collection procedures. In Russia, USAID-funded advisors helped strengthen the Federal Energy Commission, and two Russian utility companies gained access to U.S. commercial practices through USAID's Energy Industry Partnership Program. (see also Armenia, Georgia, Russia and Ukraine country assessments)

Nuclear Safety Programs: In FY 1996, USAID continued its efforts to develop overall energy strategies that will permit closure of the high-risk nuclear reactors in Russia and Ukraine. With the opening of the Medzamor nuclear power plant in Armenia, USAID-funded advisors began to develop and promote a least-cost energy investment plan that would permit Armenia to make good on its commitment to close Medzamor by 2004. U.S. Government support for the Nuclear Safety Account at the European Bank for Reconstruction and Development (EBRD) continued with the provision of \$20 million for upgrading and pre-decommissioning projects at the Chornobyl nuclear power plant that are designed to reduce the risks of accident prior to Chornobyl's expected closure in 2000.

Regional Energy Trade and International Markets: A significant development in FY 1996 was the agreement reached between the Georgian International Oil Corporation (GIOC) and the Azerbaijan International Operating Company (AIOC) for the transport of early oil from the Caspian Sea through Georgia. USAID-funded technical assistance on legal and regulatory issues was critical to the successful conclusion of this agreement establishing a Western oil transit route. In FY 1997, USAID plans to continue supporting the GIOC and to help develop a framework for further private investment. A regional oil initiative was also developed in Central Asia, with a focus on Kazakhstan, Uzbekistan and Turkmenistan. In FY 1997, USAID-funded advisors will help address legal and regulatory issues and provide training to local officials. Of increasing importance in FY 1996 was the issue of regional electricity pricing and contracting in Central Asia. USAID-funded advisors provided seminars and model electricity-trading contracts. This technical assistance drew on USAID's success in promoting similar electricity-reliability and pooling arrangements among the Baltic countries.

(see also Armenia, Georgia, Russia and Ukraine country assessments)

USAID ENVIRONMENTAL PROGRAMS

As of the end of FY 1996, USAID had obligated a total of nearly \$125 million, including \$6 million in FY 1996, and expended almost \$60 million to promote environmental protection under the NIS Environmental Policy and Technology (EPT) Project.

Environmental Policy and Institution-Building Programs

Russian Far East (RFE) Sustainable Natural Resources Management (SNRM) Program: In FY 1996, the RFE-SNRM Program promoted sustainable forest management and the development of environmentally sound forest-related enterprises, and enhanced the protection of areas of high biodiversity, particularly in the Sikhote-Alin Region. In early 1996, USAID stepped in to fill some of the serious financial gaps that threatened the Russian Far East's vast, ecologically important but bankrupt nature reserves. An example of USAID assistance was the payment of a \$15,000 fire-fighting debt owed by the Sikhote-Alin Biosphere Reserve, which was unable to pay and was faced with the possibility that fire-fighters would not help contain fires that might threaten the reserve during the summer. Despite a near-collapse in the Russian Government's federal budget for forest fire prevention and control, USAID assistance in the identification and provision of equipment and training for the Russian Forest Service proceeded well. USAID provided fire-fighting equipment, fire trucks, radio and lightning-detection radars, as well as calibration assistance and training. USAID-funded forest regeneration and reforestation activities proceeded successfully in Khabarovsk, and may be replicated in Primorye and elsewhere. This assistance focused on improving seed-storage efficiency and seed viability, and on setting up an effective system of nursery management. Also with USAID assistance, the Russian and U.S. Forest Services designed an improved greenhouse model and set up greenhouses in Gursky and Khabarovsk. As part of the RFE-SNRM Program, the Harvard Institute for International Development (HIID) conducted a three-day forest policy workshop in Khabarovsk in April, bringing together Russian academicians, forest sector leaders, and government officials to discuss issues including timber fees, harvest contracts, and forest lease mechanisms. International experts in these areas presented their experiences at the workshop, and met individually with Russian teams to form recommendations for legislative and regulatory changes.

Over the last five years, the collapse of the Russian Government's federal budget for the management of protected areas significantly increased the incidence of wildlife poaching. USAID's RFE-SNRM Program implemented an emergency program to provide support to nature reserve staff for fuel, monitoring equipment, uniforms and computers. The program also provided vehicles for conducting anti-poaching patrols, and park management used the resulting revenues from poaching fines to repair and restore park vehicles, enabling the staff to patrol more frequently. The revenue helped the parks become more self-financing—this was a principal objective of the project. In FY 1996, local policy-makers changed their views on environmental policy reform from outright skepticism and resistance to enthusiasm for specific environmental economic, legal and regulatory assistance that will create a more sustainable resource-management system. The most successful parts of the project were those focusing on land-use planning, mapping, and support for institutional development. Maps were developed and used for planning and discussion at the regional, county and local community levels. Work on biodiversity conservation strategies progressed steadily, and most of the ecological/economic assessments to designate or expand protected areas were completed. Also in FY 1996, a USAID-funded Siberian tiger census was completed. USAID's work attracted other donors—including the U.S. Fish and Wildlife Service, the World Wildlife Federation/Germany and the Exxon Corporation—who financed various aspects of biodiversity planning, especially in relation to the Siberian tiger.

Ukrainian-U.S. Council to Promote Sustainable Development: USAID supported the creation of a high-level Ukrainian-U.S. Council to Promote Sustainable Development, co-chaired by the chairman of Ukraine's Presidential Commission on Nuclear Policy and Environmental Safety and the director of USAID's regional mission in Kiev. The Council consists of a steering committee, secretariat, and working groups in the following six areas: industrial environmental management, urban water and waste-water, sustainable agriculture, energy efficiency and conservation, environmentally sound business development and international environmental cooperation, and biodiversity. The Council was formed in March 1996, and several of its working groups have already put forward recommendations to the Council. For example, the Urban Water and Waste-water Working Group recommended that legislation be changed so that capital investment costs can be incorporated into vodokanal (water and sewer utility) tariff rates and that vodokanals be fully or partially exempt from taxes because they provide an essential community service. These and similar recommendations were based on the findings and preliminary results of USAID-supported field demonstration projects in Lviv, and have the potential for bringing about systemic changes that will help vodokanals throughout Ukraine to improve their delivery of essential services. (see Moldova and Ukraine country assessments)

Public Awareness and Environmental Accountability Programs

Russian Far East (RFE) Sustainable Natural Resources Management (SNRM) Program: In addition to providing technical assistance and equipment, the RFE-SNRM Program also focused on increasing public awareness and strengthening nongovernmental organizations (NGOs). As of the end of FY 1996, 15 workshops involving a total of more than 400 participants had been held on the topics of NGO management and organization, and environmental education methodologies. With USAID funding, ISAR (formerly known as the Institute for Soviet-American Relations) set up two regional environmental centers, one in each of the Russian Far East's two regions, to provide environmental libraries, computer and e-mail facilities, news bulletins and other information to the public. ISAR was extremely effective in helping to develop an environmental e-mail network with access to its own extensive database of environmental information, organizations and donors worldwide. ISAR also translated environmental publications into Russian and distributed them, and was barely able to keep up with the high demand for them. USAID also helped local NGOs work with local radio, television and print media to train journalists on environmental issues and to develop a wide range of environmental materials related to the RFE-SNRM Program's objectives. In March, the RFE-SNRM Program organized two-day seminars on citizen participation in Khabarovsk and Vladivostok, each of which was attended by over 40 NGO representatives. The RFE-SNRM Program's innovative public participation component focused on forming conservation committees and community organizations in the indigenous Udeghe population, whose participation in protecting the high-biodiversity Sikhote-Alin range is critical. USAID funding encouraged Udeghe associations to plan, design and construct community development projects and provided them with a mechanism for further discussion and planning on how to protect their lands from environmental degradation. This assistance, in turn, led to the gradual development of a charter identifying the village associations' rights, duties and relationship to the local and regional governments, as well as plans for the formation of an Udeghe People's Association. This development preceded federal legislation recognizing the rights of Russia's indigenous communities and authorizing them to set up local administrations such as those developed under the RFE-SNRM Program.

Aral Sea Initiative

In FY 1996, the Aral Sea Sustainable Water Management Project continued to meet the urgent needs of people living in the ecologically devastated Aral Sea region of Central Asia by providing technical assistance for improving water quality, water-management practices, and public health education. USAID helped broker and contributed to the implementation of the first-ever water-sharing agreement reached by all five Central Asian countries, which calls for policy and institutional changes for more efficient water use and higher rates of cost-recovery. During spring 1996, USAID-funded technicians completed the installation of a reverse-osmosis desalinization plant in Turkmenistan and transferred its operation to local authorities; USAID also collaborated with the World Bank to devise water-delivery strategies for distributing water from the plant. Building on USAID's efforts, the World Bank purchased a fleet of trucks to deliver the water throughout the region. In Kazakhstan, a pump rehabilitation project was in the final stages of completion, and USAID will provide follow-up technical assistance in FY 1997.

In preparation for the end of the Aral Sea Initiative in spring 1997, USAID stationed a water resources and environmental management policy advisor in Tashkent through September 1997 to help the Uzbek Government maintain a consistent water policy. Over the past two years, USAID provided assistance to water treatment plants in the cities of Nukus and Urgench, helping with the installation of new laboratory equipment and chlorination equipment, as well as providing operational training and public health education. In early 1996, Uzbekistan's Ministry of Municipal Services established a State Committee for Inter-Regional Water Supply System Development to sustain the high quality of service provided by the country's twelve inter-regional water systems. The Minister of Municipal Services noted the instrumental role of USAID assistance in his government's decision to place a higher priority on funding the repair and operation of Uzbekistan's inter-regional water systems during a time of severe government budget-tightening. For the first time in five years, the Government of Uzbekistan allocated adequate funding to sustain these systems, including funds for the purchase of treatment chemicals, the power supply and staff salaries. This is a good illustration of the policy impact U.S. Government-funded environmental programs are having in the area of resource management.

SECURITY PROGRAMS

In FY 1996, U.S. Government security-related assistance and cooperative programs with the NIS continued to play a critical role in the historic transformations occurring in these states. These programs were developed to address new threats of the proliferation of weapons of mass destruction (WMD) and regional instability arising with the collapse of the Soviet Union. Increased U.S. concerns about the ability of the nuclear successor states to meet arms control treaty commitments on time and maintain effective control over nuclear and other weapons of mass destruction, related materials and expertise led the U.S. Congress to establish the Department of Defense Cooperative Threat Reduction (CTR), or "Nunn-Lugar" program in FY 1992. This program has evolved over the past four years into a broad array of security-related assistance and cooperative activities, funded and executed through a number of U.S. Government agencies. In addition, new security-related assistance and cooperative programs have been established. Security-related assistance and cooperative programs with the NIS include the following:

U.S. Department of Defense (DoD) Programs

- the Cooperative Threat Reduction (CTR) Program;
- the Environmental Security Program;
- the DoD and FBI Counterproliferation Program;

U.S. Department of State Programs

- Science Centers;
- the Non-Proliferation and Disarmament Fund - NIS Export Control Assistance;

DoD and State Department NIS Warsaw Initiative Programs

U.S. Department of Energy Programs

- Material Protection, Control and Accounting (MPC&A) Programs
- Joint U.S.-Russian Reduced Enrichment for Research and Test Reactors;
- Safeguards, Transparency and Irreversibility;
- DOE Export Control
- Initiatives for Proliferation Prevention; and

U.S. Nuclear Regulatory Commission (NRC)

- Material Protection, Control and Accounting (Regulation, Licensing, Inspection)

A number of other programs under the democratic reform or economic reform areas are related to security issues, particularly those in law enforcement which address WMD smuggling issues. Such programs, while coordinated with security-related assistance and cooperative activities to avoid duplication and help ensure program effectiveness, are reported separately in this Annual Report.

U.S. Government security-related assistance and cooperative programs in the NIS form a comprehensive, multi-layered approach to meet three primary U.S. national security objectives:

- 1) reducing the threat from the former Soviet weapons of mass destruction arsenal;
- 2) enhancing WMD nonproliferation/ counterproliferation; and
- 3) promoting regional stability.

Over the past four years, significant progress has been made in many of these areas. Highlights of FY 1996 program accomplishments include the following:

- Denuclearization of Ukraine and Belarus with assistance from the CTR Program;
- Initiation of the DoD and FBI Joint Counterproliferation program;
- Continued progress in establishing material protection, control and accounting (MPC&A) security upgrades at over 40 NIS facilities, institutes and enterprises; and
- Expanding to over 17,000 the number of former Soviet weapons scientists and engineers who are redirecting their work to civilian research and commercial activities.

Progress made in each of the security-related programs is described in detailed status reports below. While these reports reflect how much has been accomplished, they also indicate that much remains to be done. There has been a substantial increase in interagency coordination of policy, implementation and budgetary aspects of NIS security-related programs over the past year, but we continue to emphasize program linkage to ensure more effective application of U.S. Government resources to meet prioritized security objectives. Some security-related assistance and cooperative programs are nearing completion and will be phasing out over the next year, while others address long-term issues which will require continued longer-term support.

Since FY 1992, total funds budgeted for U.S. Government security-related assistance and cooperative programs has been nearly \$2 billion, the significant majority of which has been for CTR dismantlement and destruction and related programs. These funds represent a relatively small investment with an extraordinary return. The U.S. Government spent hundreds of billions of dollars defending against the threat from weapons of mass destruction in the Soviet Union during the Cold War. At a fraction of what it cost to develop defenses against the Soviet arsenal, these programs are making substantial progress in reducing the ongoing threat from the weapons of mass destruction, delivery systems, infrastructure and weapons expertise of the former Soviet Union and in preventing the emergence of new threats in the post-Cold War world.

U.S. DEPARTMENT OF DEFENSE

COOPERATIVE THREAT REDUCTION (CTR) PROGRAM

The Cooperative Threat Reduction (CTR), or "Nunn-Lugar," program was initiated in FY 1992 to reduce the threat to the United States from the weapons of mass destruction remaining on the territory of the former Soviet Union. Under the CTR program, DoD provides assistance to states certified as eligible -- currently Russia, Ukraine, Kazakstan, and Belarus -- to promote denuclearization and demilitarization, and to prevent weapons proliferation. Through the CTR program, the U.S. Government helped Belarus, Kazakstan and Ukraine become nuclear weapons-free states, and is helping all four countries fulfill other arms control commitments, as well as accelerate START reductions. CTR projects support the safe, secure transport of nuclear weapons prior to their destruction and the safeguarding and storage of nuclear materials. CTR efforts also seek to help Russia initiate and accelerate the destruction of chemical weapons. Pursuant to legislative requirements, the CTR program provides separate, detailed semi-annual reports to Congress.

Congress authorized transfer authority of \$400 million annually in FY 1992 and FY 1993 to fund the CTR program, and provided a direct appropriation of \$400 million annually for FY 1994 and FY 1995. In FY 1996, Congress appropriated \$295 million for CTR activities. Congressional actions and expiration of some funding authority reduced the overall FY 1992 - FY 1996 program funding authority by \$368 million. Thus, total available obligation authority for the CTR program from FY 1992-96 was \$1,527 million. These funds are executed under four umbrella agreements with each of the CTR recipient states and 34 implementing agreements between DoD and counterpart ministries or agencies. In addition, four Memoranda of Understanding (MOU's) between DoD and counterpart defense ministries address military-to-military contacts with the recipient states.

Building on the successes of prior years, the pace of CTR program implementation continued to increase during FY 1996 as obligations grew from \$434.2 million through FY1994 to \$866 million in FY 1995 and \$1,126 million through FY 1996. In FY 1996, DoD signed no new implementing agreements, but several amendments to previous agreements with the four recipient states, covering a range of assistance activities.

Overall U.S. Government CTR assistance has supported or encouraged the following major developments over the life of the program:

- The decisions of Belarus, Ukraine, and Kazakstan to become nuclear weapons free states and the implementation of that decision;
- Withdrawal of over 3,800 strategic warheads from Kazakstan, Belarus, and Ukraine to Russia, where most are expected to be dismantled;
- Early deactivation of all SS-24 ICBMs and over half of the SS-19 ICBMs in Ukraine;
- Purchase and transfer for secure storage of nearly 600 kilograms of weapon-usable uranium from Kazakstan to the United States;
- Removal of 86 SS-18 ICBMs from their launchers in Kazakstan and return to Russia;
- Safe and secure withdrawal of all 81 SS-25 mobile ICBMs and launchers from Belarus to Russia;
- Elimination in Russia using CTR-provided equipment of 128 SLBM launchers, 150 ICBM silos, 35 strategic bombers, and over 150 missiles;
- Completion of START Treaty government-to-government communication links;
- Initial support of nearly 15,000 former Soviet weapons scientists and engineers by the International Science and Technology Center (ISTC) in Moscow and Science and Technology Center in Ukraine (STCU) in peaceful research projects (funding shifted in FY 1996 to the State Department Science Center program);
- Establishment of the Civilian Research and Development Foundation (CRDF), which awarded its first grants in 1996 to help civilian scientists and engineers pursue peaceful research opportunities and help preserve NIS scientific infrastructure ;
- Enhancement of NIS export control capabilities; and
- Enhanced nuclear material protection, control and accounting capabilities initiated at over 40 nuclear institutes and facilities in the NIS (funding responsibility for these activities transferred in FY 1995 to the Department of Energy, Material Protection, Control and Accounting Program).

Weapons Destruction and Dismantlement: In this, the largest single category of CTR assistance, the U.S. Government is helping destroy delivery vehicles for strategic nuclear weapons and key weapons system components. CTR assistance is also being used to assist in elimination of chemical weapons. Key projects and 1996 highlights include:

- **Strategic Offensive Arms Elimination:** The U.S. Government is providing Russia equipment, training, services and logistic support to assist in expediting the elimination of strategic offensive arms pursuant to the START Treaties. This includes assistance with liquid rocket fuel disposition, SLBM launcher dismantlement, solid rocket motor elimination, SS-18 dismantlement, heavy bomber dismantlement and other projects. This project also includes provision of equipment for emergency support in case of an accident involving the transport or elimination of missiles. In Ukraine, the U.S. Government is providing assistance to deactivate SS-19 and SS-24 missiles, dismantle their silos,

and neutralize the fuel from those missiles. With CTR assistance, Ukraine became a non-nuclear weapons state in June 1996. In Belarus, the U.S. Government is assisting in the disposition of liquid rocket fuel and the elimination of SS-25 launcher foundations in accordance with START procedures. The last SS-25 nuclear rocket was removed from Belarus in November 1996. In Kazakhstan, the U.S. Government is helping close the nuclear weapons test tunnels at the Degelen Mountain complex.

- **Chemical Weapons Destruction:** The U.S. Government is also helping Russia to “jump start” the process of chemical weapons (CW) destruction. Efforts have been focused toward assisting the Russian Federation in preparing a site-specific, comprehensive chemical weapons destruction plan for the Shchuch’ye site. The Plan of Work for DoD assistance and the Program Plan for Joint Evaluation (JE) were signed in April 1995. In 1996, at the Chemical Senior Implementing Group meeting (CHEMSIG-3), DoD representatives and representatives from the Russian Federation President’s Committee and the MOD discussed current CW destruction projects and exchanged information to develop future cooperative efforts. The CW destruction project will also provide a Central Analytical Laboratory (CAL), which will enhance Russia’s ability to conduct chemical agent monitoring at CW storage and destruction sites. The U.S. Government has procured three mobile laboratories for the CAL.

Chain of Custody: Under “Chain of Custody,” CTR projects help to prevent the proliferation of nuclear materials, increase the security of nuclear warheads while in transit or in storage, and ensure that fissile materials from dismantled warheads are stored in safe, centralized, and environmentally sound locations. Key projects include:

- **Fissile Material Storage Facility at Mayak:** The construction process has started on the storage facility at Mayak. Site clearing and deliveries of construction equipment to the Mayak site were completed during FY 1996 and work on the foundation reached 70 percent completion. Some construction materials have been procured through CTR and the U.S. Government continues to assist Russia with its design efforts. The U.S. Government also is providing the Russian Ministry of Atomic Energy with containers for the transport and storage of fissile materials from dismantled weapons. Production of the containers began in October 1995 and initial shipments to Russia began in December 1995 and have continued through FY1996.
- **Weapons Protection Control and Accounting (WPC&A):** This CTR project focuses on improving the security of nuclear weapons both during interim storage and transportation. The project was formally established in April 1995 under two CTR implementing agreements with Russia. At the sixth Nuclear Weapons Security Group (NSWG), held in June 1996, DoD and MoD representatives reviewed the status of ongoing WPC&A projects, including automated inventory control and management systems, computer modeling, the personnel reliability program, supercontainers, emergency support equipment, and the railcar upgrade program. All projects continue to proceed satisfactorily.
- **Material Protection, Control and Accountability (MPC&A) Projects:** MPC&A efforts are implemented by the Department of Energy to enhance security of fissile materials at NIS facilities and institutes and enhance capabilities of the cooperating parties for preventing, detecting and deterring theft, diversion, or other unauthorized use of nuclear materials. Total CTR funding allocated for MPC&A activities from FY 1992-95 was \$78.5 million. The Department of Energy manages these programs and beginning in FY 1996, directly funded most MPC&A activities. (Details under DOE-MPC&A section below.)
- **Enhancing Export Controls:** Through FY 1995, approximately \$39 million for export control assistance to the NIS was funded under the CTR program. This assistance is being provided to Belarus, Kazakhstan, Russia, and Ukraine to help establish effective and sustainable national export control systems in these states. Although in FY 1996 funding responsibility for NIS export control assistance shifted to the State Department, most export control projects conducted in FY 1996 were executed with prior- year CTR-funds. With this CTR assistance, the U.S. Government has conducted exchanges with government and industry representatives to acquaint them with the need for effective export controls, conducted training for border guards and customs agents to help them be more

proficient in their work, and purchased and delivered equipment necessary for effective export control enforcement. (Details under State-NDF-Export Control section below.)

Demilitarization: The third major CTR area of assistance involves efforts to facilitate the NIS demilitarization and transition to democratic institutions and market economies. These non proliferation efforts seek to provide alternative peaceful, civilian uses for former Soviet weapons of mass destruction related production resources and alternative employment opportunities for the former Soviet weapons scientists and engineers. There are several projects which have been established to provide this assistance.

- **Defense Conversion:** Although no new defense conversion efforts were initiated under CTR in FY 1996, ongoing projects continued to assist in the transformation of the former Soviet defense and military complex into peaceful and productive civilian commercial entities. To date, DoD has awarded 17 contracts/grants to 13 companies to convert portions of FSU weapons of mass destruction manufacturers into non-military commercial ventures under four Defense Conversion agreements/protocols with CTR recipient states. Some examples of the products being produced include integrated circuit boards, laser pointers, hearing aids, dental equipment, and pressure vessels. These projects have provided alternative employment to approximately 1,500 former defense enterprise workers supporting both economic reform and non proliferation objectives.
- **Defense Enterprise Fund:** In FY 1995, CTR shifted the focus of defense conversion efforts from direct creation of joint ventures to the Defense Enterprise Fund (DEF) . The DEF provides loans and grants and makes equity investments in joint defense conversion projects involving U.S. companies and FSU enterprises formerly involved in weapons of mass destruction production. Such activities support both the national security objectives of eliminating weapons production capability as well as other U.S. Government assistance objectives --to promote market economies and democratic political systems of former U.S. adversaries. These projects ensure that the gains made under the CTR program in reducing the threat from weapons of mass destruction will be long-lasting and irreversible. DoD has obligated a total of \$51.7 million for the DEF. Beginning in FY97, funding responsibility for the DEF has been transferred to the Department of State under the FREEDOM Support Act.
- **Science Centers:** The International Science and Technology Center (ISTC) in Moscow and the Science and Technology Center in Ukraine (STCU) were established to provide former Soviet weapons scientists opportunities to work on peaceful civilian research activities so they would not be tempted to sell their expertise to countries of proliferation concern. The Science Centers are multilateral efforts with the US, the EU, Japan and others providing contributions. Through FY 1995, under CTR, the U.S. Government contributed \$49 million for the ISTC and \$15 million for the STCU. These U.S. Government contributions were administered by the Department of State. Beginning in FY 1996, direct program funding responsibility shifted to the State Department under the FREEDOM Support Act. (See also State Science Centers Section below.)
- **Civilian Research and Development Foundation (CRDF):** The CRDF was established in August 1995 by the National Science Foundation with an initial CTR grant of \$5 million matched by a \$5 million gift from Mr. George Soros. The CRDF is a non-governmental, non-profit foundation that supports joint R&D projects, including non-defense industrial research, for peaceful purposes. Its objectives include sustaining highly competent scientists and engineers in the NIS through productive R&D opportunities as an alternative to emigration, advancing defense conversion, and assisting with the development of a market economy in the NIS through R&D projects with entrepreneurial potential. CRDF announced its first competition in November of 1995, received over 3,000 proposals in March of 1996, and announced awards totaling more than \$10 million (about \$8 million from CRDF and \$2 million from NIS counterparts) in September 1996. The CRDF received an additional \$6 million from the National Institutes of Health (\$1 million) , the National Science Foundation (\$2 million) and DoD (\$3 million in matching CTR funds). It has announced three new competitions--for Biomedical and Behavioral Sciences, Travel Grants for applied/industry oriented project development and to provide equipment for Regional Experimental Support Centers. The latter two competitions will be implemented in coordination with the Science Centers Program. All funds available to CRDF have been committed to these projects, and will be awarded between now and May 1997.

- **Defense and Military Contacts:** In FY 1996, under Memoranda of Understanding between DoD and the Ministries of Defense of Russia, Ukraine, Belarus and Kazakstan, over 135 defense and military contacts events were funded through the CTR program. These include high-level exchanges, exercises, unit exchanges and ship visits, and exchanges of delegations on defense and military topics. Highlights include: exchanges between Russian Strategic Rocket Forces and STRATCOM, a US-Russia amphibious disaster relief exercise in Russia, a US-Russian TMD command post exercise in the US, a US-Russian-Canadian Arctic Search and Rescue Exercise, and US-Ukrainian peacekeeping computer simulation exercise in the US. Exchanges were also conducted on such topics as military education and training, military law, military medicine, and disaster relief.

COUNTRY HIGHLIGHTS

(For status of International Science and Technology Center, Export Control and Material Protection, Control and Accounting projects, see sections on State Department and Department of Energy Programs.)

BELARUS

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$33,900,000	\$2,575,569
2. Emergency Response Training/Equipment	\$5,000,000	\$4,979,687
3. Industrial Partnerships	\$20,000,000	\$19,790,267
4. Defense Enterprise Fund	\$5,000,000	\$5,000,000
5. Defense and Military Contacts	\$3,524,000	\$759,838
6. Material Control and Accounting	\$3,000,000	\$2,890,583
7. Science and Technology Center	\$5,000,000	\$4,950,000
8. Export Control	\$16,260,000	\$10,491,616
9. Continuous Communications Link	\$2,300,000	\$1,161,687
10. Environmental Restoration	\$25,000,000	\$24,502,773
TOTAL:	\$118,984,000,000	\$77,102,020

As of 9/30/96

An Umbrella Agreement for CTR assistance, seven CTR implementing agreements, and one Memorandum of Understanding and Cooperation have been signed between the United States and Belarus. The Department of Defense has notified Congress of over \$118 million in CTR assistance to Belarus, of which over \$77 million was obligated through FY1996. Program highlights include:

Strategic Offensive Arms Elimination (SOAE). The U.S. Government is facilitating the expeditious, safe, and environmentally sound elimination of means of delivery of weapons of mass destruction. Of the \$16M initially agreed, up to \$8M is designated for elimination of fixed structures associated with the SS-25 mobile ICBMs and to dispose of approximately 10,000 metric tons of liquid fuel and oxidizer. Following technical discussions regarding liquid propellant disposition held earlier this year, an incinerator was delivered in April 1996. The test burns will enable environmental certification for propellant incineration as the means to destroy 180 metric tons of heptyl.

Government to Government Communications Link (GGCL). The U.S. Government is helping Belarus develop the capability to fulfill its reporting requirements under the INF and START Treaties. Final operational cutover with a modernized system equipment configuration was achieved on 18 October 1995.

Emergency Response Equipment and Training. The U.S. Government is providing equipment and training to respond to an accident or incident involving a nuclear weapon or fissile material. Equipment, training, and technical manuals have been provided. Subsequent to a 1996 Audit and Examination finding that the equipment was unused, guidance was provided to clarify use of the equipment.

Defense Conversion. The U.S. Government is assisting in the conversion of former military enterprises to the production of civilian goods, assisting in construction of housing to enable demobilization of SRF officers, and establish retraining centers for qualifying demobilized SRF officers. Joint ventures and cost sharing facilitated several joint venture projects that helped support work carried out with local firms. One partnership is successfully producing and selling battery rechargers. Subsequent to Belarusian request, the CTR assistance project which provides assistance in the construction of housing for demobilized SRF officers who, under Belarusian law, must be provided with housing upon retirement is nearing completion. Equipment deliveries were completed in FY 1996 for a computer training center, an automotive repair training center, an English-as-a-Second Language laboratory, and a woodworking retraining center. During an Audit and Examination of the retraining center program, DoD discovered that civilian dependents of SRF officers were receiving training at those centers. DoD is working with Belarusian officials to better define the nature of U.S. Government assistance to prevent future situations such as this from arising.

Defense Enterprise Fund. \$5 million of the funds provided for the DEF has been allocated for equity investments, grants, and loans in joint ventures with Belarusian WMD enterprises. Because of difficulties concerning Belarusian privatization laws and DEF conditions, the DEF has not yet reached agreement on any projects in Belarus.

Strategic Rocket Force (SRF) Base Environmental Restoration: The U.S. Government is helping Belarus develop the capability to conduct environmental restoration of former Strategic Rocket Force (SRF) bases. This project consists of three elements: the establishment of an analytical chemistry laboratory; the provision of remote sensors and geographic information system (RS/GIS) equipment and the establishment of laboratories to process the information; and the modification of a Belarusian aircraft to accommodate the remote sensors and provision of technical assistance and training. All the equipment has been delivered.

Audits and Examinations (A&Es). Two A&Es were conducted in 1996; the first, an A&E on Export Control Assistance took place in July 1996 and the second, on the Industrial Partnership programs, was conducted in August 1996. Both went smoothly.

KAZAKSTAN

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$78,500,000	\$36,226,933
2. Nuclear Infrastructure Elimination	\$23,500,000	\$7,430,378
3. Defense Conversion	\$15,000,000	\$14,944,796
4. Export Control	\$7,260,000	\$6,576,555
5. Material Control and Accountability	\$23,000,000	\$21,922,911
6. Government to Government Communications Link	\$2,300,000	\$1,576,137
7. Emergency Response Training/Equipment	\$5,000,000	\$3,223,020
8. Science and Technology Center	\$9,000,000	\$8,950,000
9. Defense and Military Contacts	\$1,900,000	\$623,261
10. Defense Enterprise Fund	\$7,000,000	\$7,000,000
TOTAL:	\$172,460,000	\$108,543,992

As of 9/30/96

An Umbrella Agreement for CTR assistance, seven CTR implementing agreements and one Memorandum of Understanding and Cooperation have been signed between the United States and Kazakstan. DoD has notified Congress of over \$172 million in CTR assistance to Kazakstan, of which over \$108 million has been obligated through FY 1996. Overall, programs with Kazakstan have gone smoothly, although there are occasional difficulties with taxation and licensing. Programs include:

Strategic Offensive Arms Elimination (SOAE): The primary project under this agreement is to assist Kazakstan in the safe elimination and clean up of all SS-18 silo launchers and launch control centers, training silos, and silo test launchers, enabling Kazakstan to fulfill START I obligations. Kazakstan plans to salvage some equipment prior to Russia destroying the silos; destruction will be followed by clean-up of the destroyed silo sites. Additional dismantlement assistance such as elimination of infrastructure associated with strategic offensive arms, disposition of excess liquid rocket fuel, and elimination of heavy bombers will also be provided.

Government to Government Communications Link (GGCL): The U.S. Government is helping Kazakstan develop the capability to fulfill its reporting requirements under the INF and START Treaties. The link is now installed and operational using a single circuit.

Emergency Response Equipment and Training: The U.S. Government provided equipment and training to respond to an accident or incident involving a nuclear weapon or fissile material. Deliveries of equipment (ranging from chemical and fire fighting protective clothing, air sampling and radiation monitors to personal dosimeters) are complete.

Expanded Defense and Military Contacts: Assistance is provided to promote better understanding and cooperation between U.S. and Kazakstani military establishments. Eight events in FY 1996 were funded including a U.S. Coast Guard aviation team visit and Kazakstani Navy reciprocal visit, and Kazakstani participation at disaster relief conference.

Defense Conversion/Industrial Partnerships: Assistance is provided to convert former military enterprises to the production of civilian goods. The following projects have been funded:

- Byelocorp Scientific, Inc: to convert Gidromash, a former missile and aircraft systems production facility, to design, manufacture and distribute valves and pressure vessels for cryogenic materials and gases.
- Allen & Associates International: to convert Biomedpreparat, a former biological warfare research and production facility, to manufacture, package, and distribute vitamins.
- Kras, together with Kazakstan's National Nuclear Center: to convert a former nuclear weapons testing facility to a printed circuit board production plant.
- AT&T: to convert Kasinformtelecon into an international telecommunications company and to establish wireless telecommunication in 11 cities using Saryshagan as an international telecommunications downlink.

Defense Enterprise Fund (DEF): \$7 million of the DEF has been allocated for equity investments, grants, and loans in joint ventures with Kazakstani WMD enterprises. \$3 million had been approved for investment with ATT, CDC, and KVT to provide operating capital for the telecommunications project described above.

Weapons of Mass Destruction Infrastructure Elimination (WMDIE): Under CTR, assistance is being provided to eliminate facilities or infrastructure previously supporting nuclear forces or other WMD. The WMDIE program includes a \$7M project to assist Kazakstan in the elimination of infrastructure associated with nuclear weapons test tunnels at Degelen Mountain. Additionally, the WMDIE program includes assistance in infrastructure dismantlement at a former Soviet plant at Stepnogorsk, Kazakstan designed for production of biological weapons (BW). An inter-agency team has surveyed the BW facility at Stepnogorsk and is preparing an initial assessment. This project is an important element of the Multi-agency Stepnogorsk Initiative, initiated in 1996 to address a wide range of issues related to elimination, dismantlement and redirection of the production facilities and weapons expertise from the Stepnogorsk BW facility.

Audits and Examinations (A&Es): An A&E of the GGCL was conducted in Kazakstan in July 1995 and went smoothly. An A&E on Export Control assistance was conducted in May 1996 with only one minor discrepancy identified; corrective action has since been initiated.

RUSSIA

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$231,000,000*	\$116,071,077
2. Chemical Weapons Destruction	\$68,000,000	\$32,318,548
3. Fissile Material Storage Facility	\$84,000,000	\$76,903,323
4. Fissile Material Storage Containers	\$50,000,000	\$48,380,601
5. Fissile Material Storage Facility Design	\$15,000,000	\$14,999,458
6. Weapons Storage Security	\$28,000,000	\$3,125,123
7. Weapons Transportation Security	\$46,500,000	\$25,339,099
8. Industrial Partnerships	\$38,000,000	\$32,938,665
9. Defense Enterprise Fund	\$10,000,000	\$10,000,000
10. Defense and Military Contacts	\$14,548,000	\$9,688,070
11. Emergency Response Training/Equipment	\$15,000,000	\$14,648,284
12. Material Control and Accounting	\$45,000,000	\$42,826,059
13. International Science and Technology Center	\$35,000,000	\$34,685,462
14. Export Control	\$2,260,000	\$2,044,196
15. Security Enhancement for Russian Railcars	\$21,500,000	\$21,221,234
16. Armored Blankets	\$5,000,000	\$3,244,083
17. Arctic Nuclear Waste	\$30,000,000	\$29,950,009
18. Research and Development Foundation	\$10,000,000	\$10,000,000
TOTAL:	\$748,808,000	\$567,674,062

* An additional \$5M has been notified to Congress but not yet applied. as of 9/30/96

An Umbrella Agreement for CTR assistance, twelve CTR implementing agreements, one implementing protocol, and one Memorandum of Understanding and Cooperation have been signed between the United States and Russia. DoD has notified Congress of over \$753 million (\$5M still not applied) in CTR assistance to Russia, of which over \$567 million was obligated through FY 1996. Cooperation with Russia has evolved over the years. Difficulties often arise in administering the CTR program in Russia as the U.S. Government must work with three separate organizations--the Ministry of Defense, Ministry of Atomic Energy and the Ministry for Defense Industry (MDI). The U.S. Government continues to experience difficulty with ensuring the tax-free status of CTR implementors, but overall, the progress of CTR projects in Russia through 1996 has been excellent.

Strategic Offensive Arms Elimination: The U.S. Government is providing Russia with equipment, training, services, and logistic support to assist in expediting the elimination of strategic offensive arms pursuant to the START Treaties. This includes assistance with liquid rocket fuel disposition, SLBM launcher dismantlement, solid rocket motor elimination, SS-18 dismantlement, heavy bomber dismantlement, and other projects. This program also provides equipment for emergency support in case of an accident involving the transport or elimination of missiles.

Emergency Response Equipment and Training. The U.S. Government provided equipment, training, and technical manuals to enhance Russia's capability to respond to accidents involving nuclear weapons in transit for dismantlement activities. This project is scheduled for completion by the end of 1996.

Fissile Material Storage Facility: The U.S. Government is providing assistance to Russia for safe and secure storage of fissile materials derived from dismantled nuclear weapons. DoD is providing design and construction support as well as construction and facility equipment for a fissile material storage facility at Mayak in Russia. The U.S. Government expects Russia to budget an amount sufficient to cover the remaining facility construction costs and all of the related infrastructure costs. Through FY 96, the U.S. Government has provided technical design assistance materials, services, and training for the Russian-led design effort for the storage facility and is assisting the Russian-led construction of the facility and procurement of facility equipment. US-provided construction equipment has been delivered to Mayak.

Fissile Material Containers: The U.S. Government is providing MINATOM with containers for the transport and storage of fissile material from dismantled weapons. About 24,000 of these Fissile Material

Containers (FMCs) will be stored in the Mayak facility. Through 1996, there have been five shipments of more than 4500 units.

Rail Car Enhancements: The U.S. Government has provided training and equipment to modify cargo and guard rail cars for transport of nuclear weapons destined for dismantlement. All kits have now been installed in 125 railcars.

Nuclear Weapons Transportation Security: The U.S. Government continued to provide assistance to enhance security of nuclear weapons during transport in connection with their destruction. All supporting projects, including procurement of emergency support equipment and production of supercontainers, are scheduled to be completed by the end of 1997.

Nuclear Weapons Storage Security: Additionally, the U.S. Government is providing assistance to enhance security of nuclear weapons storage in connection with their destruction. All supporting projects are scheduled to be completed by 2001. Initial computer equipment for an automated inventory management system was procured and delivered in 1996.

Civilian Research and Development Foundation (CRDF): The CRDF was initially established in August 1995 to support joint R&D opportunities in the former Soviet Union and to increase and encourage links between U.S. and NIS scientists and businesses. CTR funds, which are contingent upon the receipt of matching funds (\$5M was initially provided by the Soros Foundation), have been provided to this National Science Foundation-administered program.

Chemical Weapons Destruction Assistance: The U.S. Government is assisting Russia in the destruction of its chemical weapons stockpile and materials. This assistance program has four elements: a comprehensive implementation plan, joint process evaluation, a central analytical laboratory, and a pilot CW destruction facility. The Russian concept for a destruction program has become more clearly defined and the U.S. Government plans to provide CTR assistance for the construction of the pilot CW destruction facility with a destruction capacity of 25% that of a full facility for nerve-agent filled artillery munitions.

Defense Conversion: While in 1996, no new projects were initiated in this area, progress was made toward completing three industrial partnerships created between U.S. companies and Russian defense enterprises to convert former Soviet military industrial facilities to civilian production. Projects include the production of high performance hearing aids, dental chairs, and Russian air traffic control hardware and software. American Housing Technologies, Inc. is working with Russian defense firms to produce prefabricated housing for demobilized Russian officers and the Russian housing market. In addition, with prior year CTR support, Commerce Department published the fifth edition of the Russian Defense Business Directory.

Defense Enterprise Fund: Through the DEF, the U.S. Government is assisting in the conversion and privatization of former Soviet military/industrial capacity with loans, grants, or equity investments in partnerships.

Arctic Nuclear Waste Assessment: The U.S. Government is providing for the investigation and analysis of nuclear waste disposal in the Arctic regions by the former Soviet Union. This is a unilateral effort on the part of the United States. Russian cooperation is required and has been actively sought, but formal agreements neither exist nor are planned. The project is scheduled for completion in 1998.

Audits and Examinations (A&Es): In 1996, three A&Es have taken place in Russia: Chemical Weapon Destruction, SOAE, and Emergency Response. MINATOM has expressed some dissatisfaction with the administrative burdens of A&Es. The U.S. Government is developing a firm response making clear that U.S. rights to A&Es of assistance provided are not to be diminished. A&Es are expected to continue through 2001, as agreements provide for their execution for three years following the term of relevant agreements.

UKRAINE

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Nuclear Arms Elimination	\$242,700,000	\$184,947,996
2. Nuclear Infrastructure Elimination	\$23,400,000	896
3. Emergency Response Training/Equipment	\$3,400,000	\$3,170,404
4. Industrial Partnerships	\$55,000,000	\$54,012,004
5. Defense and Military Contacts	\$8,028,000	\$2,816,434
6. Material Control and Accounting	\$22,500,000	\$21,521,386
7. Science and Technology Center	\$15,000,000	\$14,931,659
8. Export Control	\$13,260,000	\$9,094,517
9. Government to Government Communications Link	\$1,000,000	\$998,724
10. Multilateral Nuclear Safety Initiative	\$11,000,000	\$11,000,000
TOTAL:	395,288,000	\$302,484,019

* \$244.7M agreed, will be reflected in future notifications.

9/30/96

DoD has notified Congress of over \$395 million in CTR assistance to Ukraine, of which over \$302 million has been obligated through FY 1996. Despite some early difficulties, CTR cooperation with Ukraine has improved markedly over the years, making it one of the most successful CTR programs.

Strategic Nuclear Arms Elimination (SNAE): Assistance is provided to facilitate START I implementation and to deactivate SS-19 and SS-24 missiles. Funding supports the procurement of equipment and the design of an ICBM neutralization facility. The facility was commissioned in July 1996 and is processing up to six missiles per month. A liquid rocket fuel storage facility was completed in November 1995 to store the SS-19 fuel until a process is developed or determined for its eventual elimination.

Nuclear Infrastructure Elimination: Assistance is provided to eliminate facilities or infrastructure previously supporting nuclear forces; including physical plants, support systems and materials. Discussions for elimination of field facilities in Pervomaysk were completed in 1996 and work is scheduled to begin in CY97. These facilities were used to store, transfer, and dispose of rocket fuel and oxidizer for SS-19s, and for the partial purging of the SS-19s prior to transfer.

Government to Government Communications Link: This project helped Ukraine develop the capability to fulfill its reporting requirements under the INF and START Treaties. The link is now installed and operational. A software upgrade was completed in March 1996. Software and operations training took place in mid-August 1996.

Emergency Response Equipment and Training: The U.S. Government is providing equipment and training to help Ukraine respond to an accident or incident involving a nuclear weapon during transit. Training has begun and deliveries of equipment, ranging from communications equipment for a command and control computer network to personal dosimeters, will be completed in Spring 1997. All activities associated with this project including training and equipment support, are scheduled to conclude in September 1999.

Civilian Cooperative Reactor Safety Upgrade: The U.S. Government is providing a computer-based nuclear power plant training reactor simulator. This project is administered by DoE. The project involves simulator hardware and software design and engineering, training, construction and testing, shipping, installation, spare parts, support, etc. The simulator is expected to be delivered in August 1997.

Defense Conversion. While in 1996, no new projects were initiated in this area, progress was made toward completing industrial partnerships created between U.S. companies and Ukrainian defense enterprises to convert former Soviet military industrial facilities to civilian production, including production of prefabricated housing for demobilized former Strategic Rocket forces officers. With CTR assistance, the Commerce Department published the second edition of Investment Opportunities in Ukrainian Defense Conversion, a directory listing nearly 100 Ukrainian firms.

Audits and Examinations (A&Es): Two A&Es were conducted in November 1995--Emergency Response and Emergency Support Equipment assistance, making a total of four for the year. In March and June 1996, respectively, A&Es were conducted on rocket propellant disposition and silo launcher elimination assistance under the SNAE agreement. A&Es on export control assistance and emergency response equipment took place in September and October 1996. So far, all has gone smoothly and the Ukrainians have been very helpful. A&Es are to continue until three years after CTR agreements expire.

ENVIRONMENTAL SECURITY PROGRAM

Arctic Military Environmental Cooperation (AMEC)

The Department of Defense began discussions with the Norwegian and Russian Ministries of Defense on Arctic Military Environmental Cooperation (AMEC) in 1995 to jointly address critical environmental issues that are related to these militaries' unique capabilities and activities in the Arctic region. In September 1996, Secretary of Defense Perry, Norwegian Minister of Defense Kosmo, and Russian Federation Minister of Defense Rodionov signed a Declaration launching a cooperative effort among these three military forces under the AMEC framework. The AMEC program will support joint activities to ensure the safe handling and storage of radioactive materials, to ensure proper disposal of hazardous toxic materials, and to exchange information on risk assessments and cleanup technologies and methods. Funding for the program and the specific projects is provided by all three parties with each country principally paying for its own participation. There are six initial projects to be conducted under the AMEC program:

- Development of a prototype container for interim storage of spent nuclear fuel;
- Development of a technology for treatment of liquid radioactive waste;
- Technology review and implementation for solid radioactive waste volume reduction;
- Review and implementation of technologies for the improvement of interim storage facilities for solid radioactive waste;
- Remediation of hazardous waste sites on military bases
- Review and implementation of clean ship technologies.

DoD/FBI COUNTERPROLIFERATION PROGRAM

On July 3, 1996, Secretary of Defense Perry and Federal Bureau of Investigation (FBI) Director Freeh signed and submitted a joint DoD/FBI Report to Congress describing the DoD/FBI Counterproliferation program pursuant to the National Defense Authorization Act (NDAA) for FY 1995 (P.L. 103-337). The NDAA provides DoD authority to reprogram up to \$10 million in support of this joint DoD/FBI training program to expand and improve the U.S. Government's efforts to deter, interdict, and prevent the possible proliferation and acquisition of weapons of mass destruction (WMD) by organized crime groups and individuals in Eastern Europe, the Baltic states and the states of the Former Soviet Union (FSU). The focus of the program is nuclear, chemical and biological weapons (NBC) law enforcement training to prevent smuggling/ trafficking, and deter and detect possible WMD proliferation.

Throughout 1996, program plans were developed and the first country assessments were initiated to determine program requirements. DoD and FBI will provide policy guidance for this program. Both DoD and FBI will implement the program in coordination with other law enforcement and intelligence community components. An interagency Steering Group chaired by the NSC and including DoD, FBI, State Department, the Intelligence Community (IC), Department of Energy (DOE), Department of Commerce, U.S. Customs Service and other agencies in the law enforcement area will select countries for program participation and coordinate the program with other on-going U.S. nonproliferation assistance efforts to ensure efficiency and non-duplication. The initial focus of the DoD/FBI Counterproliferation program will be the southern tier states of the FSU.

The program has three principal objectives:

- 1) To assist in establishment of a professional cadre of law enforcement personnel within these nations who are trained and equipped to prevent, deter and investigate crimes related to the proliferation and/or diversion of NBC weapons and their delivery systems, as well as to prevent the illicit trade in related materials;
- 2) To assist these countries, where necessary, in developing appropriate laws and regulations, in accordance with international standards, designed to prevent the acquisition and/or trafficking of weapons of mass destruction (WMD) and their associated technologies, and to advise these nations, where necessary, on the establishment of appropriate enforcement mechanisms; and
- 3) To build a solid and long-lasting bureaucratic and legal framework reinforced by political commitment, that would enable these governments to attack this nonproliferation problem at home and to participate effectively in international efforts to do the same. This will also permit the United States to cooperate efficiently with the recipient countries.

The program's workplan is divided into three elements: policy consultations and project development, training and technical assistance, and equipment procurement. As required and after country assessments and reviews of existing assistance are completed, some equipment may be provided to enable trained personnel to execute their responsibilities more competently and efficiently. It is anticipated that much of the training outside the United States will take place at the U.S. Government's International Law Enforcement Academy (ILEA) in Budapest, Hungary. Ideally, in addition to law enforcement officials, groups selected for instruction will include judges, interior/justice officials, investigative magistrates/prosecutors, customs and national security officials.

Although at the early stages of implementation, the DoD/FBI Counterproliferation program will serve as an important step in helping foreign law enforcement agencies to effectively deal with threats posed by the proliferation of WMD.

U.S. DEPARTMENT OF STATE

SCIENCE CENTERS PROGRAM

The Science Centers Program, which includes the International Science and Technology Center (ISTC) in Moscow and the Science and Technology Center in Ukraine (STCU), is a multilateral nonproliferation initiative whose primary objective is to provide opportunities for former Soviet weapons scientists and engineers, particularly those with expertise in nuclear, biological, and chemical weapons and missile systems, to apply their talents to peaceful civilian research and technology development activities. Science Center projects support U.S. objectives to:

- Reduce the temptation to sell weapons expertise to countries of proliferation concern or make weapons technology available to terrorist groups or rogue states;
- Support the transition of NIS countries to a market economies;
- Develop solutions to national and international technical problems (such as nuclear safety, energy, and environment); and
- Assist in integrating members of the former Soviet weapons community into the international civilian scientific community. Projects supported by the Centers provide funds directly to the FSU scientists rather than institutes, to reduce the temptation for such scientists to sell their expertise to countries of proliferation concern.

Through FY 1995, U.S. Government contributions to the Science Centers totaling \$64 million (\$49 million for the ISTC; \$15 million to the STCU) were funded by the DoD Cooperative Threat Reduction (CTR) program, but administered by the Department of State. Beginning in FY 1996, direct funding responsibility for the Science Centers was shifted to the State Department under the FREEDOM Support Act. In FY 1995/1996, the U.S. Government contributed \$15.5 million to the ISTC from FREEDOM Support Act funds.

Science Center funding parties now include the United States, the European Union, Japan, Canada and Sweden. Finland was also an ISTC funding party until 1996 when it announced it would continue its participation in the Science Centers through its membership in the European Union. During 1996, Norway initiated its accession procedures and strong expression of interest in ISTC membership was received from the Republic of Korea. The transition to FSA funding with broader authority has allowed ISTC to provide funding to non-CTR eligible states--Armenia, Georgia and Kyrgyzstan have acceded to the ISTC Agreement; Uzbekistan is completing the accession process.

SCIENCE CENTERS

FREEDOM Support Act	Science Center Recipients	Funds Obligated
FY 95 - \$ 500,000	-- Russia	\$ 500,000
FY 96 - \$15,000 000		\$ 12,509,570
\$ 13,500,000 - projects	-- Russia	11,711,935
	-- Kazakstan*	0
	-- Belarus	0
	-- Armenia	487,200
	-- Georgia	160,435
	--Kyrgyzstan	150,000
	Balance	** \$ 990,430
Program Support***\$ 1,500,000	technical support	\$ 1,500,000

NOTES: * Kazakstan and Belarus have not received FSA funds as both have available CTR funds. Kazakstan --\$9M and \$8.3 is obligated/Belarus --\$5M and \$1.2 is obligated. **\$500K is pending for the interagency initiative at the former biological weapons institute at Stepnogorsk, Kazakstan, and approximately \$400,000 is reserved for Partner matching funds.*** Less than ten percent annually is used for program support, which includes technical review and monitoring of project proposals/ongoing projects, staff details and other support activities.

Major Milestones: In less than three years, the Science Centers have achieved the following:

- Established two functioning international secretariats: for the ISTC in Moscow with Branch offices in Belarus and Kazakstan and information offices in Armenia, Georgia, and Kyrgyzstan; and for the STCU in Ukraine.
- Held 11 ISTC Governing Board meetings approving nearly 350 projects valued at \$121 million and engaging about 15,400 scientists on civilian projects in Russia, Belarus, Kazakstan, Armenia, Georgia, and Kyrgyzstan;
- Held three STCU Board meetings approving funding for 60 projects with a value of over \$6 million which will engage over 1000 former Soviet weapons scientists and engineers on civilian projects in Ukraine;
- Engaged U.S. technical and industry collaborators as Partners in projects who participate at their own expense and adopted procedures to allow inter-governmental and non-governmental organizations such as the European Center for Nuclear Research (CERN) and NC Laboratories (Switzerland) to participate;
- Leveraged USG funds at a ratio of greater than 1:1 against other countries and partners-- for the ISTC, \$45 million from the European Union, \$19 million from Japan, about \$2 million from Partners; for the STCU, \$ 2 million from Canada and \$1.5 million from Sweden;
- Implemented tax and customs exemptions, diplomatic immunities, and access rights to the weapons institutes and conducted several audits and examinations;
- Conducted Two-Year Reviews of the ISTC and STCU as required by the Science Center Agreements and initiated implementation of recommendations; and

- National Academy of Sciences (NAS) Independent Evaluation - The NAS also conducted a comprehensive evaluation resulting in a positive assessment of the ISTC's effectiveness and recommends that the U.S. Government "sustain annual core funding for the ISTC at least until, and probably beyond, 2003."

Partners Program: Despite making considerable progress toward lessening proliferation risk of weapons of mass destruction and missile technology, more projects are proposed involving key weapons institutes and scientists than can be supported with available Science Center funds. Each of the Science Centers initiated a Partners Program in FY 1996 that enables direct participation of private industry, universities, and research centers to support projects and increase the potential for long-term transition away from weapons work to civilian careers. Other USG agencies and U.S. private industry partners can contribute to Science Center projects bringing additional resources to the program. More than \$1.5 million in support came from Partners in 1996 with a significant increase expected in 1997. The NAS requested Partner status and will bring \$500,000 in project funds to the ISTC for public health work with former biological weapons institutes. The Science and Technology Directorate of the Ballistic Missile Defense Organization also added \$250,000 in FY97 funds to the overall USG contribution.

NIS Contributions: NIS members also are contributing partners in the Science Center effort. The NIS Parties provide staff and facilities for the ISTC and STCU multilateral headquarters in Russia and Ukraine and for branch offices and information centers in Belarus, Kazakstan, Armenia and Georgia. These branch offices provide logistical services, assist in soliciting and gathering proposals, provide public outreach services and assist in coordinating ISTC projects, seminars, and other efforts in their respective countries. The Science Centers are fully tax exempt, and as their program contribution, the NIS institutes participating in Science Center projects absorb payroll and social taxes in addition to a significant portion of overhead costs. Many NIS institutes also provide in-kind contributions of staff and equipment for project use.

Project Priorities: During 1996, the Science Centers shifted focus from providing emergency, short-term nonproliferation assistance, to also address longer-term redirection of specific facilities and countries of highest proliferation concern. Program emphasis continues to be on Russia where the bulk of weapons of mass destruction, missile institutes and expertise resides, but viable projects are sought from all eligible states. Selection of projects for USG funding was guided by the following priorities:

- **Nuclear-** Many of these institutes and their scientists with weapons expertise are still deemed at risk. The Science Centers now reach virtually all major nuclear weapons-related institutes in Russia, Ukraine, Belarus, and Kazakstan. Senior scientists from the Federal Research Center/Snezhinsk (Chelyabinsk-70) have stated that the ISTC is the single most important source of support for scientists who are making the transition to civilian activity. This is critical as scientists at major nuclear facilities are once again going unpaid or partially paid for months at a time. The suicide in October of 1996 of the Director of Chelyabinsk-70 is grim evidence of the pressures faced by this group of experts.
- **Biological-**The U.S. Government has made redirection of the former Soviet biological weapons community a priority. This area represents a significant proliferation and terrorist risk. The ISTC currently is the only USG effort engaging a cross section of key former Soviet biological weapons institutes. Major facilities at Obolensk and Koltsovo, Russia, are already involved as well as many other Russian facilities.
- **Chemical-** A major element of the chemical weapons (CW) problem is facilitating commercial opportunities for the scientists and institutes with CW expertise. The ISTC has and will continue to engage a range of CW institutes in Russia, including the State Scientific Research Institute for Organic Chemistry and Technology (GosNIIOKhT), the Institute of Organo-Element Compounds, the Moscow and Chernogolovka branches of the Institute of Chemical Physics, the Karpov Institute of Physical Chemistry and others.

- **Missile/Other-**Much progress has been made in Ukraine to engage the significant missile complex in that country and in similar facilities in Russia. There also is justification for projects in technical areas such as laser technologies, optics, or particle and microwave beam, for example, when proliferation risks are identified. This is more often the case in countries such as Armenia, Belarus, Georgia and Kyrgyzstan where there is a lower concentration of weapons scientists.

Monitoring: Technical monitoring is carried out by Science Center Secretariat staff following a monthly schedule supplemented by technical expertise provided by collaborators, partners, and funding parties. For example, in 1996 there were 162 on-site visits to monitor 304 ISTC projects involving 229 secretariat and other expert staff for a total of 525 man-days. In addition, quarterly and annual progress reports are reviewed for consistency with each project's approved work plan. No STCU projects have been underway long enough for implementation of a full monitoring program. Financial audits of USG-funded projects are managed by the Defense Contract Audit Agency (DCAA).

COUNTRY HIGHLIGHTS

Armenia: Armenia joined the ISTC in 1994, but FY 1996 was the first year that U.S. Science Center funds could be spent for ISTC projects in Armenia. In prior years, CTR funding was limited to the four nuclear inheritor states certified as eligible (Russia, Belarus, Kazakhstan, Ukraine). When funding shifted in 1996 to the FREEDOM Support Act, certification was sought for broader application of U.S. Government funds. The U.S. Government contribution, through the ISTC, to redirect the expertise of the small but highly qualified cadre of former Soviet weapons specialists in Armenia will form an important complement to our overall cooperative efforts to that country.

Belarus: The U.S. Government allocated \$5M of CTR funds for ISTC projects in Belarus. The first U.S. award (\$488,000) was made in December 1995. An additional 6 projects (\$611,460) were approved in October 1996. Belarus opened its ISTC Branch Office in June 1996 at the "Sosny" Scientific and Technical Complex of the Academy of Science of Belarus.

Georgia: Georgia joined the ISTC in 1994, but FY 1996 was the first year that U.S. Science Center funds could be spent for projects in Georgia. Georgia is aware of the importance of ISTC activities, as noted by a personal plea by President Shevernadze for ISTC support for Georgian scientists. ISTC-funded projects in Georgia include "refugee scientists" who have fled the conflict in Abkhazia. Without ISTC support, these displaced weapon scientists would be at the highest risk for recruitment by countries of proliferation concern in the region. A request from the Foreign Minister of Abkhazia to initiate accession procedures to the ISTC was denied by the Parties.

Kazakhstan: Kazakhstan is the first non-Russian CIS country to hold the CIS seat on the ISTC Governing Board. The seat is held on a one-year term and is rotated between non-Russian CIS members of ISTC. During FY 1996, the U.S. Government obligated nearly \$8 million to Kazakhstan ISTC efforts including projects related to Project Sapphire in which the U.S. Government removed a significant amount of highly enriched uranium from Kazakhstan for safe storage in the US. Additionally, the ISTC is a critical element of the multi-agency Stepnogorsk Initiative to redirect the expertise of biological weapons scientists from the former Soviet BW production facility in Stepnogorsk, Kazakhstan. Kazakhstan provides facilities and two staff members for a branch office in Almaty, opened in mid-1996.

Kyrgyzstan: Kyrgyzstan joined the ISTC in 1996. Approximately \$150,000 FY 96 funds will support the first U.S.-supported project in Kyrgyzstan—on heavy oil products regeneration—approved in October 1996.

Russia: The host country to the ISTC headquarters and the majority of ISTC-funded projects, Russia continues to provide excellent support and initiative to ensure that the objectives of the program are carried out, often under difficult conditions. Russian government officials have worked diligently to ensure full implementation of tax and customs exemptions and facility audit and access provisions. Russia is a full partner on the Governing Board, in the two-year review process and in an ongoing series of working group meetings of the original signatories to the ISTC agreement in which key Science Center policy questions are being discussed and resolved. For FY1996, the ISTC Governing Board met in Moscow in

December 1995, March 1996 and in June 1996 to award a total of 39 new projects valued at over \$8 million. The ISTC also sponsored several major seminars in the NIS during FY 1996 in Russia.

Ukraine: The highlight for FY 1996 was the establishment of the Science and Technology Center in Ukraine (STCU), which operates independently of the ISTC. After a year of operating in temporary facilities with limited staff, the STCU opened permanent facilities in Kiev and held its first Governing Board meeting in December 1995. In FY 1996 the STCU Governing Board approved over 50 projects with a value of \$6.1 million (the U.S. Government's share being \$4.4 million) that will engage over 1,000 Ukrainian scientists and engineers. Along with the United States, the initial parties to the STCU include Canada, Sweden and Ukraine. Because of the STCU's success, the European Union and Japan have announced their intention to participate in the STCU.

Uzbekistan: In 1996, the Prime Minister of Uzbekistan announced his country's intention to participate in the ISTC. The Government of Uzbekistan is in the process of completing accession procedures, which will extend ISTC activities to an important element of the former Soviet weapon scientist community. In its first years of independence, Uzbekistan has established good nonproliferation credentials, consistent with United States policy in the Middle East and Asia. ISTC participation will permit the United States and Uzbekistan to build on this relationship to help redirect the scientific expertise in Uzbekistan towards the civilian economy.

NONPROLIFERATION AND DISARMAMENT FUND (NDF) - EXPORT CONTROL ASSISTANCE

Helping the NIS develop effective export control systems and capabilities is a critical element of U.S. Government efforts to prevent, deter or detect potential proliferation of weapons of mass destruction and weapons materials. The objective of U.S. export control assistance is to help build export control institutions, infrastructure, and legislation in the NIS to help prevent weapons proliferation. Initially under the DoD Cooperative Threat Reduction (CTR) program, through FY 1995 the U.S. Government provided approximately \$39 million in export control assistance to Russia, Ukraine, Kazakstan and Belarus with the Departments of Commerce, Energy, State and Treasury (Customs Service) as the primary implementing agencies. In FY 1996, funding responsibility for export control assistance shifted to the Department of State under the Non Proliferation and Disarmament Fund (NDF).

The NDF's FY 1996 appropriation of \$20 million was authorized for nonproliferation activities worldwide, and included \$10 million for export control activities. From these funds, in 1996, the NDF approved 8 projects in the area of export control assistance to the NIS totaling \$3.8 million. These NDF activities supplemented ongoing export control assistance activities under the CTR program in Belarus, Kazakstan, Russia, and Ukraine, and allowed export control assistance to be provided to other non CTR eligible states of the NIS for the first time. NDF-NIS Export Control activities included:

- Two Forums held for representatives of the NIS Southern Tier States--one in Istanbul in November 1995 and the other in Washington in September of 1996. The purpose of these fora was to exchange information on the elements of an effective export control regime and develop interest in upcoming assessments and technical exchanges;
- Training on legal and regulatory systems as well as preventive enforcement techniques for the Southern tier states and a seminar on regulations, orders and interagency agreements necessary to implement Kazakstan's new export control law; and
- Equipment for customs automation in Ukraine and customs enforcement in Kyrgyzstan, and an enforcement handbook to aid customs inspectors was provided to all of the NIS.

Future export control assistance under the NDF will focus increasingly on the Southern Tier states and the Baltics. While these states are not significant producers of weapons of mass destruction, they are the most likely transit routes for the smuggling of WMD or nuclear materials to potential proliferants.

COUNTRY HIGHLIGHTS:

Belarus: Under CTR, the U.S. Government has provided assistance including a licensing administration local-area-network, wide-area network, automation training center, pursuit vehicles, communication equipment, and interdiction equipment. The U.S. Government also helped in drafting Belarus' export control law which is scheduled to be submitted to the parliament. Delivery of a cargo x-ray machine, baggage x-ray machines, and radiation detection equipment was completed by the end of August 1996. Due to greater than anticipated costs in the procurement of automation equipment, the U.S. Government will not be able to provide all assistance the Belarusians requested. The U.S. Government provided forklifts to the Belarusians that were not of the type specifically requested. All deliveries are scheduled for completion by the end of 1997.

Kazakstan: Under CTR, the U.S. Government has provided computers, customs lab equipment and patrol boats to augment export control infrastructure capabilities. Delivery and training of the customs laboratory equipment occurred in October 1995. Procurement of command and control radios, vehicles, and automation equipment continued throughout FY 1996. Portions of this program support the overall assistance program for Project Sapphire. The U.S. Government provided drafting assistance for Kazakstan's export control law which was enacted in June 1996. The installation of radios and patrol lights on Jeep Cherokees for export control use are not yet completed. Additionally, a total of six patrol boats have been procured and delivered to assist with enforcement on the Caspian Sea. The CTR Export Control program is scheduled to be completed by the end of FY97.

Russia: Due to lack of an implementing agreement, export control assistance under CTR was limited to involvement of the Government of Russia in conferences, training, and information exchanges in order to integrate it more into the international export control community. The Departments of Commerce, State, and Energy, and the Customs Service are implementing the project plan. These activities focus on export control legal authorities and implementing decrees, enforcement and industry awareness. For example, the Commerce Department led four technical exchanges in the areas of industry-government cooperation, legal and regulatory foundation and preventive enforcement.

Ukraine: Assistance provided under CTR includes equipment to automate Ukraine's licensing, enforcement, and customs administration as well as customs interdiction equipment. Specific equipment includes x-ray vans and a starter local area network. Initial deliveries were made in Summer 1995; training is ongoing. All CTR contracted equipment will be delivered by the end of 1997. The U.S. Government has also provided assistance in drafting Ukraine's export control law, developing a comprehensive control list and training in export control enforcement.

DEPARTMENT OF DEFENSE AND DEPARTMENT OF STATE

WARSAW INITIATIVE / PARTNERSHIP FOR PEACE

OVERVIEW: Initiated in 1994 by President Clinton, the Warsaw Initiative is intended to "help America's new democratic partners work with the U.S. to advance the Partnership for Peace (PFP) goals". The Warsaw Initiative materially facilitates partners participation in PFP exercises, conferences, seminars, and other events. It also provides partners equipment and training to improve interoperability with NATO and Allies. The U.S. Government allocated \$100 million in FY 1996 bilateral assistance for the Warsaw Initiative for all PFP partners. Warsaw Initiative funds are divided into a Department of Defense portion--\$40 million in FY 1996 for exercises, conferences and other PFP events, and a State Department portion--\$60 million for grant Foreign Military Financing (FMF).

Department of State - Warsaw Initiative: The NIS could not participate in the State Department portion of the program in FY 1996. Despite planning for the use of \$6.9 million in FMF for the NIS in FY 1996, Presidential Determinations--necessary to make NIS countries eligible to receive U.S. defense articles and services-- were not complete. Nevertheless, pursuant to a transfer authority in the FY97 Foreign Operations Appropriations Act, the \$6.9 million is being carried over into FY 1997. That, combined with an FY 1997 allocation of \$5.9 million, will make available \$12.8 million for the NIS.

Department of Defense - Warsaw Initiative: The Department of Defense activities planned were estimated at \$18.1 million for NIS participation, however, this full amount was not spent by the end of 1996. Obligations were lower for the NIS as the largest state, Russia, had a very low level of participation in PFP activities. Many NIS initially also had a low absorption rate for the new programs since they were both in the process of developing their own military structures and learning about PFP. One large Warsaw Initiative program was closed to the NIS states--DoD had authorization to use Warsaw Initiative funds to pay for transport to partners of Excess Defense Articles (EDA) from American depots in Europe, but one requirement for eligibility for EDA was authorization for participation in the Foreign Military Sales system. While a final DoD accounting from the CINCs and Joint Staff is not yet available, the NIS absorbed approximately \$13.5 million in DoD Warsaw Initiative funds during FY 1996.

Progress: Despite these problems, the Warsaw Initiative program in the NIS was a major success in what was largely a "get acquainted" year.

- Among the countries with the highest participation in PFP activities were Ukraine and Moldova. A major event was Peaceshield 96, an "in the spirit of PFP" exercise hosted by Ukraine in 1996.
- Some NIS, particularly Turkmenistan and Belarus, had relatively low levels of activity. Most took advantage of Warsaw Initiative support to attend various NATO or PFP conferences and seminars which contributed greatly to their understanding of NATO and national security structures.
- Many also took part in at least some exercises. Six partners participated in Cooperative Osprey, a major NATO field exercise in the United States in August 1996.
- During the year, a number of NIS countries also participated in key DoD interoperability programs funded under the Warsaw Initiative such as Ukraine's participation in the Defense Resources Management System program.

International Military Education and Training (IMET): This training program is designed to foster greater respect for and understanding of the principals of civilian control of the military, improved military justice systems and procedures in accordance with internationally recognized human rights, and effective defense resources management. One of its most important elements is English language training for the military officers of each NIS state. IMET activities complement and supplement Warsaw Initiative activities in the NIS.

U.S. DEPARTMENT OF ENERGY (DOE)

MATERIALS PROTECTION, CONTROL AND ACCOUNTING (MPC&A)

DOE MPC&A Program of cooperation with Russia, the Newly Independent States (NIS), and the Baltic States is intended to strengthen facility and national systems of MPC&A for weapons-usable nuclear material (unirradiated plutonium and highly-enriched uranium). This cooperation began in 1994 with MPC&A demonstrations, training, and upgrades at three locations in Russia, two in Ukraine, and one in Kazakstan. In 1995, DOE established a special task force to coordinate and accelerate MPC&A upgrades. DOE is now cooperating at over 40 locations in eight countries to implement comprehensive MPC&A upgrades to protect hundreds of tons of weapons-usable nuclear material not contained in weapons.

MPC&A activities were managed and executed by the Department of Energy from FY 1992 to FY 1995, with a total of \$78.5 million from the DoD Cooperative Threat Reduction (CTR) program. In addition, DOE initiated a direct \$2 million program to support MPC&A activities. These efforts have grown significantly over the past four years. Beginning in FY 1996, recognizing the high priority of assistance in this area, Congress provided DOE a direct appropriation of \$70 million for MPC&A activities. In addition, DOE received an additional \$15 million in FY 1996 CTR funds for MPC&A.

Russia: Significant expansion of DOE's MPC&A efforts occurred in 1996, encompassing MPC&A cooperation at over 30 locations across Russia. During 1996, substantial progress was made at many facilities in Russia, including jointly-developed, detailed project plans, contracts to provide upgrades, equipment delivery, equipment installation, and MPC&A training. Examples of upgrades installed include completion of a perimeter at Gatchina, hardening of a central storage facility in Dubna, and completion of initial upgrades at the central storage facility of the Kurchatov Institute. Upgrades at more than 10 of the smaller facilities in Russia will be complete by the end of 1997. DOE has reached agreement with the Russian Navy to strengthen MPC&A for Russian naval nuclear fresh fuel, to include upgrades at two storage facilities and a Naval research facility at the Kurchatov Institute. DOE National Laboratory technical experts are cooperating with the Institute of Automatics, the Institute of Inorganic Materials, and Eleron in Russia to manufacture MPC&A equipment. DOE has also signed an agreement to cooperate with Eleron in providing MPC&A upgrades to the transportation of fissile material between Minatom facilities.

Cooperative efforts with Russia also include developing an indigenous safeguards culture through cooperation with Gosatomnadzor (GAN), the Russian Federal Nuclear and Radiation Safety Authority, and establishment of the Russian Methodological and Training Center (RMTC) at Obninsk. Significant progress has been made in implementing the DOE agreement with GAN, including cooperation on far-reaching MPC&A projects, including training Russian regulators and inspectors, developing regulatory documents, upgrading six non-Minatom nuclear facilities, and developing the Russian national nuclear material control and accounting system with Minatom and Euratom. DOE helped develop the RMTC to train Russian MPC&A instructors, technical experts, regulators, and inspectors, conducting more than 25 courses to date. In addition, DOE brings Russian, NIS and Baltic specialists to the United States for hands-on training in the use of MPC&A technologies at DOE national laboratories.

Ukraine: During FY 1996, significant progress was made in implementing MPC&A in Ukraine. MPC&A upgrades are underway at all four facilities in Ukraine included in DOE's program of cooperation. Upgrades are nearing completion at the Kharkiv Institute for Physics and Technology (KIPT) and the Kyiv Institute for Nuclear Research (KINR). Physical protection upgrades at KINR will be completed by November, 1997. MPC&A work at KIPT will also be completed by the end of 1997, including upgrades to the central alarm station, vault doors, and interior sensors. In February, 1996, DOE added Sevastopol Naval Institute (SNI) to MPC&A cooperation. A site survey and assessment report are complete and a modular nuclear material vault will be installed in Spring, 1997.

Kazakhstan: During FY 1996, MPC&A cooperative efforts continued at the Ulba State Holding Company, the research reactors at Semipalatinsk, the research reactor outside of Almaty, and the BN-350 breeder reactor at Aktau. At Ulba, DOE teams implemented MPC&A upgrades and provided specialized training courses and workshops. At Semipalatinsk, DOE provided MPC&A system upgrades and MPC&A training, including a vulnerability assessment course. For the Almaty research reactor, MPC&A upgrades and MPC&A training fundamentals courses were given, along with visits to U.S. sites employing similar MPC&A equipment and techniques. Physical protection plans were developed for both Almaty and BN-350 at Aktau. Along with initial MPC&A system enhancements, BN-350 personnel attended fundamental MPC&A training and hands-on workshops.

Belarus: Work to improve MPC&A at the Sosny Institute of Nuclear Power Engineering in Minsk was completed during 1996. A ceremony was held on October 1, 1996 to announce the completion of multilateral MPC&A efforts. Physical protection and material control and accounting training was held during 1995 and 1996. Upgrades at the facility include installation of exterior and interior sensors, turnstiles, a video assessment system, an access control system, a hardened nuclear material storage vault, a guard force communications system, a computerized accounting system, and a measurement system.

Uzbekistan: Upgrades to nuclear MPC&A at the Tashkent Institute of Nuclear Physics were completed during 1996. A closing ceremony was held on October 4, 1996. Upgrades at the facility include hand-held metal and special nuclear material detectors, access control devices, video assessment, a badging system, pedestrian metal detectors, sensors, a relocated and upgraded nuclear material storage vault, and a new central alarm station. Physical protection and material control and accounting training was also conducted.

Georgia: Nuclear MPC&A upgrades at the Tblisi Institute of Physics were completed in May, 1996. After a physical protection site survey was completed, DOE made detailed recommendations for possible near-term and long-term solutions to the final disposition of the special nuclear material. DOE then implemented interim physical protection upgrades to ensure protection of the material during negotiations on final disposition of the material.

JOINT U.S.-RUSSIAN REDUCED ENRICHMENT FOR RESEARCH AND TEST REACTORS (RERTR)

The objective of the RERTR program is the further reduction of international commerce in highly-enriched uranium through the conversion of Soviet-designed research and test reactors from high-enriched uranium (HEU) to low-enriched uranium (LEU) fuel. In 1995, the United States (Argonne National Laboratory) and Russia (the Research and Development Institute of Power Engineering, RDIPE) signed an agreement to cooperate on a program to develop LEU fuel enabling Russian-designed research and test reactors, both within and outside of Russia, to convert from the use of HEU fuel to LEU fuel. A new contract, containing new language regarding intellectual property rights, was signed between ANL and Russian labs in June 1996. The United States is providing \$450,000 in funding for the first full year under the contract. Russia will provide approximately \$3 million for the same period. The work is projected to take place over a period of at least five years.

SAFEGUARDS, TRANSPARENCY AND IRREVERSIBILITY (STI)

At the May, 1995 Summit in Moscow, the United States and Russia committed to negotiate agreements that established, among other things, an exchange of detailed information on aggregate stockpiles of nuclear weapons and fissile materials on a regular basis. They also agreed to establish a cooperative arrangement for reciprocal monitoring of storage facilities for excess fissile materials removed from nuclear warheads, and to establish methods for confirming the fissile material portion of the stockpile data exchange. These agreements grew out of the STI Program, which is comprised of six elements: an Agreement for Cooperation for the exchange of classified data; plutonium mutual reciprocal inspections (MRI); highly-enriched uranium MRI; a stockpile data exchange agreement; an agreement for spot checks to enhance confidence in the accuracy of the stockpile data exchange; and a limited chain-of-custody regime for nuclear warheads.

During FY 1996, there was little progress in negotiations with the Russian Federation on the STI Program. Russia was unwilling to schedule any substantive discussions as the country prepared for presidential elections in June and July. Since Yeltsin's election, his ongoing health problems have served to slow down the Russian interagency consideration of STI initiatives. These initiatives are forward-leading and require a lessening of Cold War security concerns. The single area in which progress has been made has been in the development of measurement procedures for plutonium mutual reciprocal inspections. United States and Russian delegations met in Moscow in September 1996 to resolve differences on the best means to conduct shape measurements. An additional meeting was to take place at the Lawrence Livermore National Laboratory in late November. Once measurement techniques are finalized, further progress is tied to the completion of the Agreement for Cooperation on the exchange of classified information between the United States and the Russian Federation.

U.S. DEPARTMENT OF ENERGY (DOE) EXPORT CONTROLS

The Department of Energy (DOE) has implemented a program of export control assistance to the former Soviet Union (FSU) since 1992. DOE has worked collaboratively with other United States agencies under the Cooperative Threat Reduction (CTR) Program. With the solid foundation for national export control systems laid in place by the CTR Program, DOE initiatives target areas which have not been fully addressed or where DOE brings unique skills to bear on an issue or problem. For example, DOE has focused on engaging FSU scientific experts in the export control process. Under the DOE Export Control Appropriations, \$2.105 million went toward FSU export control assistance activities during FY 1996.

In 1996, DOE developed a comprehensive plan, *The Department of Energy Plan for Cooperation in Export Controls in the Former Soviet Union*, which establishes the framework to engage the FSU scientific community in the export control process. The DOE Export Control Plan is designed to address the full range of issues associated with the development, expansion, and refinement of controls for nuclear and nuclear-related dual-use commodities, materials, and technologies within the FSU. The plan has been structured to provide flexibility to address new issues in a timely and cooperative spirit.

Since implementation of the comprehensive plan, DOE has established three laboratory-to-laboratory programs in Russia; two in Ukraine; and one in Kazakstan. In Russia, agreements are in place between the Russian research Center-Kurchatov Institute and Los Alamos National Laboratory (LANL); the Institute of Physics and Power Engineering and Oak Ridge National Laboratory; and the Russian Center for Export Controls and LANL. In Ukraine, agreements are in place between the Ukrainian Institute for Nuclear Research and Argonne National Laboratory (ANL); and between Kharkiv Physical Technical Institute and Pacific Northwest National Laboratory. In Kazakstan, agreements are in place among the National Nuclear Center and LANL/ANL. DOE also cooperates bilaterally with the NIS governments to design effective workshops and seminars to strengthen national export control systems.

DOE INITIATIVES FOR PROLIFERATION PREVENTION (IPP) PROGRAM

The primary objective of the NIS Initiatives for Proliferation Prevention Program (IPP) is to reduce incentives for nuclear and other former Soviet weapons scientists, engineers and technicians to emigrate to countries of proliferation concern by redirecting their expertise to nonmilitary applications of commercial value and mutual benefit to the United States and the NIS. IPP seeks to establish links to key Former Soviet Union Ministry of Defense and Ministry of Atomic Energy institutes, then to engage scientists, engineers, and technicians there in peaceful projects to stabilize the technology base at these institutes and remove incentives for these people to assist rogue regimes or terrorist organizations. IPP projects involve the ten Department of Energy National Laboratories, and many include cost-sharing with U.S. industry. IPP has a clear Federal exit strategy, with transition from U.S. Government funding through a cost-sharing phase with U.S. industry to direct involvement of U.S. industry with an NIS institute or startup company. IPP projects involve advanced development work rather than basic research, and must offer the potential of near-term commercial interest to a prospective U.S. industry partner.

IPP was first funded in FY 1994 with \$35 million from the FREEDOM Support Act. These funds carried over into FY 1995 with no new funds appropriated that year. In FY 1996, Congress appropriated \$10 million under the Energy and Water Appropriation for IPP; and the Department of Defense transferred an additional \$10 million in FY 1996 Cooperative Threat Reduction funds for IPP. For FY 1997, IPP received \$30 million under the Energy and Water Appropriation bringing total funds available from FY94-97 to support IPP projects to \$85 million.

In the first phase (Thrust I) of each IPP project, the ten DOE National Laboratories work directly with NIS institutes under laboratory-to-laboratory subcontract agreements on projects to identify, demonstrate and validate technologies for commercial potential. In the second phase (Thrust II) of each IPP project, U.S. companies participate through cost-sharing projects involving the NIS institutes as well as the DOE National Laboratories to develop the technologies further. U.S. companies, as well as U.S. universities participate in the process via a consortium known as the U.S. Industry Coalition (USIC) which has 77 members, including 9 universities. Thrust II projects require that the USIC partner match Government funding dollar for dollar. In a final phase (Thrust III), USIC members form direct partnerships with NIS institutes or startup companies to commercialize technologies developed in Thrust II projects with no Government involvement. DOE, via development of tailored contract language, has acted to protect intellectual property rights of the different parties involved in IPP projects and to speed the subcontracting process.

In FY 1996, the IPP added 45 projects, engaging 500 former weapons scientist, engineers and technicians, to the prior year total of 202 approved projects; 17 of these new projects (37 percent) involved U.S. industry cost-sharing. Since IPP's inception, industry cost-share projects have in-kind contributions from U.S. industry totaling \$27 million, leveraging U.S. private sector funds to IPP cost-share funds in a 2:1 ratio. Materials technology continues to represent the largest group of projects, with other categories being sensors, waste management, accelerators, biotechnology, energy, environment, and manufacturing. Major groups of new projects were approved in Ukraine, Belarus, and the Urals region of

Russia. Several Thrust II projects now underway are aimed at developing technology to mitigate the impact of the Chernobyl disaster in Belarus and Ukraine. A focus on key technology areas has led to increased internal IPP program integration across the ten participating laboratories. At the same time, discussions with NIH are aimed at interagency cooperation and leveraging of technology and funds in several project areas.

COUNTRY HIGHLIGHTS

Russia: During FY 1996, focus was on initiating contacts at additional closed cities and transition of successful Phase I projects to Phase II. Highlights were contacts made at Krasnoyarsk-26 and consultative assistance with a feasibility study there for design of a facility to make polycrystalline silicon. Also IPP participated in 1996 with the Departments of Defense, Commerce, State and other U.S. Government agencies, in a Defense Conversion Exposition and Conference in Ekaterinberg. This conference included over 200 participants from U.S. and Russian government and industry. During the conference nearly \$1 million in contract agreements were signed to begin work on four IPP projects between DOE laboratories and Russian institutes from the Sverdlovsk Oblast and other areas of the Urals region. Two projects, one aimed at commercialization of an environmental cleanup technology, and the other at production of photovoltaic collectors, are nearing commercial takeoff.

Ukraine: A highlight of the IPP program in Ukraine is a Phase II project initiated in FY 1996 involving Argonne National Laboratory, its CRADA partner Selective Environmental Technologies Inc. (Selentec) and several Ukrainian ministries and institutes. The project is aimed at developing and demonstrating a pilot process in Ukraine for removal of radioactive elements from cow's milk. This process, which could be extended to other food and beverage products, is aimed at helping Ukraine mitigate the impact of the Chernobyl disaster. Total IPP funding for this project will exceed \$1 million with additional funding being provided in a coordinated effort from USAID.

Belarus: A major IPP Phase II project in Belarus involving Sandia National Laboratories, its CRADA partner Wheelabrator Environmental Technology, Inc. and the Belarus Institute of Power Engineering Problems, is aimed at evaluating the health, environmental, and economic consequences of a pilot biomass power plant designed to burn timber and forest products waste contaminated with radioactive elements from the Chernobyl disaster, while capturing the radioactive elements in the resultant ash. This project would also address the energy supply problems of Belarus, which imports about 90 percent of its energy from Russia. This project will last two years and will have total funding from all sources of over \$1.5 million, including an estimated \$0.4 million in capital equipment from Belarus. About 23 percent of the land area of Belarus is contaminated with fallout from Chernobyl and Belarus spends about 20 percent of its GNP on remediation of the impact of Chernobyl.

U.S. NUCLEAR REGULATORY COMMISSION (NRC)

Material Protection, Control and Accounting (MPC&A) Assistance

NRC has provided in FY 1996 and will continue to provide in FY 1997 material protection, control, and accounting (MPC&A) assistance to Russia, Ukraine, and Kazakstan with the objectives of assisting the regulatory agencies in:

- developing comprehensive MPC&A regulations;
- establishing an MPC&A licensing program; and
- establishing an MPC&A inspection program.

Much of NRC's MPC&A NIS regulatory support to date has been to help the recipient states gain a substantive understanding of what is involved in developing regulations, and in the conduct of licensing and inspection programs. NRC believes the recipient countries need to clearly define plans for their regulatory programs to serve as the context for future NRC regulatory support. In FY 1996, diplomatic messages were forwarded to Russia, Ukraine, and Kazakstan requesting information on their plans and identification of areas of needed support from NRC to gain commitments to regulatory developments at the agency-head level. To date, a response has been received from Kazakstan, and as a result, the NRC

and Kazakstan have been able to draft proposals for future cooperative work. NRC expects to receive responses from Russia and Ukraine in early FY 1997. NRC resources available to the FSU regulatory organizations are highly constrained, and future resources available will dictate the degree to which the regulatory support program can be pursued, including the degree to which NRC support can be absorbed by the NIS regulatory agencies.

Russia: NRC provides assistance in the development of regulations for nuclear material through the review of current and draft regulatory documents and discussions on the development of NRC regulations.

In FY 1996, NRC conducted an MC&A workshop for three representatives of the Russian regulatory agency GosAtomNadzor (GAN) at NRC Headquarters, which included discussions of NRC's rulemaking process, regulatory guides, export-import licensing process, and MC&A regulations. In FY 1997, NRC will conduct a workshop for three GAN representatives in the area of physical protection, which will address similar issues. NRC expects to assist GAN in the development of a process to license nuclear facilities in Russia. This assistance would include training of GAN and facility personnel in development of site-specific material control and accounting and physical protection facility plans. NRC assistance also will include training for GAN inspectors and mutual inspector accompaniment activities at nuclear facilities in both the U.S. and Russia.

In FY 1996, NRC accompanied GAN inspectors on MC&A inspections at the Kurchatov Institute in Moscow and the St. Petersburg Institute For Nuclear Physics in Gatchina. GAN physical protection experts visited an NRC region and accompanied a regional inspector on a physical protection inspection at a reactor. In addition, a GAN representative attended a technical training course required for NRC MC&A inspectors. In FY 1997, NRC expects to conduct an inspector training course for GAN inspectors. This course was developed in FY 1995, but delayed repeatedly by GAN.

Ukraine: NRC safeguards regulations and guidance documents have been translated into Russian and provided to the three FSU regulatory agencies and some facilities. NRC also developed for the three regulatory agencies logic trees and matrices, which graphically present the contents of NRC regulations. The logic trees enable the regulators to develop regulations which may range from performance-oriented to prescriptive. The matrices enable the regulator to develop guidance documents, and allow the operators to understand which components may be necessary to meet the regulations, based on the availability of indigenous resources.

During FY 1996, a group of five Ukrainian regulatory and facility personnel attended a seminar on highly enriched uranium (HEU) nuclear material physical protection licensing issues. The seminar was augmented by a trip to the Nuclear Fuel Services (NFS) facility, where NFS personnel discussed how they implemented NRC regulations and developed security plans. On another occasion, NRC discussed the development and review of facility licensing plans with Ministry of Environmental Protection and Nuclear Safety (MEPNS) officials.

During FY 1996, two representatives of MEPNS observed an MC&A inspection at the Westinghouse Commercial Nuclear Fuel Division facility. The Ukrainians observed and discussed how NRC inspects such areas as records and reports, measurement systems, and measurement control. The Ukrainians were also briefed by facility personnel on such topics as conducting physical inventories, performing shipper/receiver difference determinations, and use of measurement equipment. A MEPNS MC&A specialist attended a course at NRC Headquarters in nuclear material sampling and measurements.

Kazakstan: In FY 1996, NRC staff conducted a workshop on development of safeguards regulations for representatives from the Atomic Energy Agency of the Republic of Kazakstan (AEARK) and each Kazakstani nuclear facility. The delegation traveled to the North Anna Nuclear Power Plant to observe how NRC safeguards regulations are implemented at a U.S. facility. Also, a delegation of four Kazakstanis visited the ABB Combustion Engineering facility to discuss and observe how the site implements NRC low enriched uranium nuclear material physical protection regulations.

In FY 1996, the head of AEARK Safeguards Division observed an MC&A inspection at the ABB Combustion Engineering fuel fabrication facility. The inspection focused on the facility's physical inventory, and facility staff briefed the visitor on the methodology for development of a facility plan. In addition, an AEARK physical protection specialist observed an NRC security inspection at the Turkey

Point Nuclear Power Plant. The inspection covered various topics, including perimeter testing, alarm station operations, audits, and handling safeguards information.

SOCIAL-SECTOR AND HUMANITARIAN PROGRAMS

USAID HEALTH PROGRAMS

As of the end of FY 1996, a total of \$170 million had been obligated, including \$33 million in FY 1996, and \$114 million expended under USAID's NIS Health Care Improvement Project. USAID-funded activities in this area focused on improving the sustainability of social benefits and services through economic reform of the health sector, encouraging greater efficiency and use of market-oriented systems to fundamental social needs, thus promoting market reform as well as health-care reform.

USAID Hospital Partnerships Program: As of the end of FY 1996, there were 27 USAID-funded hospital partnerships linking U.S. and NIS medical institutions. Women's health, including reproductive health, is an area that has traditionally been neglected in the former Soviet Union and one which USAID has supported at the institutional level in the NIS through a unique mechanism, the Health Care Partnerships Program implemented by the American International Health Alliance (AIHA). Over the past three years, AIHA-supported medical partnerships have addressed a wide spectrum of women's health needs, focusing on health promotion, prevention and the provision of basic services through outpatient clinics and outreach services. This past year, a task force composed of participating U.S. partners addressed cross-cutting issues related to women's health through the ongoing partnership activities. A key feature of the NIS Hospital Partnerships Program is the development of institutional management capacity. In FY 1996, partnership activities and inter-regional training helped increase the productivity and sustainability of the NIS partner institutions. (see Russia and Uzbekistan country assessments)

Vaccine and Pharmaceutical Security Program: USAID's Vaccine and Pharmaceutical Security Program mobilized private-sector resources in the production and distribution of critical pharmaceuticals; promoted rational, cost-effective pharmaceutical management ; while at the same time promoting conditions favorable to U.S. investment in the pharmaceutical sectors of the NIS countries. (see Russia country assessment)

Health Information and Response Programs: USAID's Health Information and Response Program strengthened the capacity of the NIS countries to conduct public health surveillance, promoted techniques to reduce the incidence of communicable and non-communicable diseases, improved their public health information systems, and improved their mechanisms for disseminating public health information to policy-makers. The U.S. Centers for Disease Control and Prevention (CDC) and USAID's Basic Support for Institutionalizing Child Survival (BASICS) Project were active in Central Asia, the Caucasus, Russia, Ukraine and Moldova, and USAID's Program for Appropriate Technologies in Health (PATH) was active in Ukraine.

National Immunization Policy Reform Programs: Three years ago, immunization policies in the NIS countries were uniformly outdated and, consequently, wasteful of scarce national and international resources. Through the BASICS Project, USAID successfully influenced national immunization policies in the NIS through a series of policy workshops. By the end of FY 1996, all 12 NIS countries had officially updated their policies on contra-indications and vaccine schedules, and several had revised their service-delivery and support strategies, making them more cost-effective and appropriate under current conditions. The total savings resulting from changes in national immunization schedules alone are estimated at over \$800,000 per year—a savings of over \$4 million over the next five years.

Improving Control of Vaccine-Preventable Diseases: USAID efforts to help specific NIS countries formulate rational disease control policies led to progress toward the containment of the NIS diphtheria epidemic and the eradication of poliomyelitis. By the end of FY 1996, most NIS countries had conducted mass immunization campaigns against polio, resulting in greater than 95-percent coverage in most cases. During the first quarter of 1996, no new polio cases were reported in the NIS. (see Russia and Ukraine country assessments)

Improving Disease Surveillance and Management: As of the end of FY 1996, the USAID-supported U.S. Centers for Disease Control and Prevention (CDC) had trained 215 NIS health care professionals in the following disciplines: applied epidemiology and disease surveillance techniques, disease-reporting information management, and public health communications. As a result of this training, Armenian, Russian, Central Asian and Georgian health officials can now produce monthly disease-surveillance information bulletins based on accurate and timely nationwide reporting and can more effectively diagnose and monitor outbreaks. In FY 1996, CDC and USAID worked to analyze Kyrgyzstan's burden of disease, promoted evidence-based medicine, and prompted a restructuring of clinical intervention protocols which were hampering patient care.

Health Financing and Service Delivery Reform Program (ZdravReform): In FY 1996, USAID continued to support systemic improvements in health-care financing, payment systems, service delivery, management and quality control in the NIS, with the goal of creating more efficient and cost-effective health care systems. The ZdravReform Program, implemented by Abt Associates, provided technical assistance, training, small grants, and disseminated health-related information in Kazakstan, Kyrgyzstan, Russia and Ukraine. ZdravReform helped establish new models of ambulatory care that are more responsive to the medical and customer service needs of NIS citizens. In Barnaul, Kemerovo and St. Petersburg, Russia, ZdravReform helped establish nine general physician practices within existing polyclinics, resulting in a more cost-effective use of scarce capital resources. ZdravReform also promoted family and preventive medicine by revamping clinical and referral protocols, payment systems, patient monitoring, and quality-control systems in Issyk-Kul, Kyrgyzstan, and in Semipalatinsk and Dzezkasgan, Kazakstan. (see also Kazakstan and Kyrgyzstan country assessments)

Support for Women's Reproductive Health Services: USAID's program to improve women's health through modernization, improved effectiveness and financing of women's reproductive health services in the NIS was in its third year of implementation in Central Asia, Russia, Ukraine, and Moldova. Focused on increasing access to family planning services, the program aims to reduce reliance on abortion, which is now used throughout the NIS as the main method for fertility control, resulting in adverse health consequences and high levels of maternal mortality. The programs will be continued through 1997 with an emphasis on training trainers and promoting the development and management of sustainable contraceptive services in the NIS. In Central Asia, data from 33 project sites in five countries indicated a 58-percent increase in first-time users of contraceptives and a 30 percent decrease in induced abortions in 1994. In Russia, where a few years ago women reported an average of seven abortions over their lifetime, women reported an average of three abortions, according to two USAID studies conducted in 1995. Similarly, a 1995 reproductive health survey conducted by the CDC found that 60 percent of Russian women used some type of contraceptive method, and 70 percent of these women used a modern method. Usage of intrauterine devices (IUDs) has increased since the late 1980s, when studies from the USSR reported that less than 20 percent of Soviet women used IUDs. Russian surveys now report IUD usage at 42 percent, and surveys in Kazakstan found 33 percent of women using contraception in urban areas were using IUDs. Meanwhile, Ukraine's Ministry of Health reported an 8.6 percent reduction in induced abortions in Ukraine during the first six months of 1996, and directly attributed the decrease to USAID assistance. The services being provided in the model clinics and other oblast clinics by personnel trained through USAID programs were perceived to be of higher quality by the clients, and contraceptive usage was higher in the model-clinic service areas than in areas not serviced by the model clinics.

USAID HOUSING-SECTOR REFORM PROGRAMS

By the end of FY 1996, a total of \$238 million had been obligated, including \$20 million in FY 1996, and a total of \$185 million expended for programs designed to help the NIS countries develop market-oriented housing sectors. Housing-sector reform is particularly vital in the NIS because the heavily subsidized public housing system inherited from the former Soviet Union has drained federal budgets and because sufficient availability of housing is key to labor mobility as industries undergo reform.

In FY 1996, USAID's Housing Sector Reform Project (HSRP) helped five NIS countries make substantial progress in privatizing their housing stock, reducing public housing subsidies, increasing private-sector real estate activity, reforming key communal services, and transforming the housing management and maintenance industry from a government monopoly to a competitive contracting system. These activities

promoted USAID's objectives of accelerating the development and growth of private enterprise and increasing the effectiveness, responsiveness and accountability of local governments.

Support for the Development of Private Housing Markets: In coordination with national and local governments throughout the NIS, the HSRP supported initiatives to increase private ownership and management of housing. In FY 1996, the HSRP promoted and disseminated locally models for the competitive bidding of management and maintenance services and condominium formation. Both of these programs were gaining popularity in several NIS countries. For example, as of the end of FY 1996, over 400,000 units were under private maintenance in Moscow, up from 8,000 in 1993, and 11 Russian cities had privatized the maintenance of at least 10 percent of their public housing stock, providing better service at half the cost. The Moscow City Duma (Council) passed a law requiring that the city's entire housing stock be privately maintained by 1998. Meanwhile, in Ukraine, the number of condominium associations had risen from 18 to 83, and 21 Ukrainian cities had competitively bid maintenance services for a total of 141,000 units (up from 27,000 units in FY 1995). At least 30 additional Ukrainian cities will issue contracts to private maintenance firms in FY 1997. (see also Kazakstan and Russia country assessments)

Land Privatization and Real Estate Development: In FY 1996, several NIS countries took steps to establish land-title registration systems that will support the formation of private real estate markets, decentralize governmental taxation, and privatize municipal land. Armenia and Kyrgyzstan began joint projects on property registration co-sponsored by the HSRP. (see also Kyrgyzstan, Russia and Ukraine country assessments)

Housing Allowance Programs: With HSRP assistance, Kazakstan, Russia and Ukraine implemented national housing allowance programs with the goal of reforming their housing sectors to achieve full cost recovery of rent and utilities. The housing allowances are targeted at needy populations who are unable to afford market-based fees. As of the end of FY 1996, 90 percent of the cities in Russia were offering targeted housing allowances. Ukraine's housing-allowance program successfully helped low-income families as rents and fees rose to 100-percent cost recovery by the end of 1996. The Government of Kazakstan also enacted legislation that mandates an increase in fees to full cost recovery by the end of 1996. In response to this mandate, fifty cities throughout Kazakstan opened housing allowance centers, using HSRP models and procedures developed in two pilot programs in FY 1995. By September 1996, prices in Kazakstan had reached 60 percent of real costs.

Housing and Municipal Finance: In Armenia, the HSRP facilitated the formation of the Armenian Builders' Association, a non-profit organization representing the country's emerging private construction industry. In Kyrgyzstan, the Central Asian - American Enterprise Fund awarded its first loan in FY 1996 to a private Kyrgyz firm to build an apartment and business center complex. The loan is the first instance of a privately financed housing construction project in the country. The HSRP also facilitated the introduction of Habitat for Humanity International's communal housing construction program in Kyrgyzstan. In Russia, the HSRP helped create mortgage-lending programs in Russian banks, fully run and supported by trained Russian staff. As of the end of FY 1996, over twenty banks were offering mortgage-lending programs and had issued more than 5,000 mortgage loans to private homeowners. During the past year, the focus of HSRP assistance in Russia shifted to the long-term sustaining of mortgage lending, through legal assistance aimed at the passage of a mortgage law, as well as legislation to establish an agency for mortgage lending. In FY 1997, the HSRP plans to respond to the increased demand for assistance in competitive bidding from cities in Kazakstan, where local administrations are now required to conduct competitive bids for municipal supplies and services.

Legal and Institutional Reform: In FY 1996, the HSRP helped the federal and local governments of several NIS countries to draft legislation and regulations necessary to support a viable private housing market. As a result, the Government of Armenia adopted a law on real estate, a law on condominiums, and most notably, a law on local self-government. The Law on Local Self-Government decentralizes many fiscal and management responsibilities to local administrations. In FY 1997, the HSRP will help local governments establish new management structures, finance and budgeting practices, as well as regulations concerning property law and the provision of municipal services. In Russia, several crucial laws and decrees pertaining to the housing sector were adopted in FY 1996, including legislation on condominium formation, privatizing the maintenance and repair of municipal housing stock, rent reform, and registering real property rights. The Cabinet of Ministers in Kazakstan issued three resolutions that

have set in motion reforms in the housing sector in every city nationwide: the first resolution mandates the de-monopolization of utility services; the second established a national housing allowance program to protect low-income families; and the third encourages the formation of condominium associations.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - FOOD ASSISTANCE PROGRAMS

In FY 1996, over \$172.9 million in U.S. agricultural commodities were exported to the NIS under USDA programs. USDA provided a wide variety of food and agricultural assistance to help these countries make the difficult transition to market-oriented agricultural systems. USDA food assistance was concentrated in the following areas: long-term concessional sales to meet agricultural import needs, donations to meet humanitarian needs, and export credit guarantees to facilitate commercial purchases of U.S. agricultural commodities. (see also Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine country assessments)

USDA Concessional Sales and Donations

In FY 1995, USDA food assistance to the NIS totaled approximately 350,000 metric tons. This assistance was provided through three mechanisms:

- 1) "Food for Progress" grant programs using Commodity Credit Corporation (CCC) funds;
- 2) "Food for Progress" grant programs funded under Public Law 480, Title I; and
- 3) concessional sales under Public Law 480, Title I.

USDA entered into government-to-government agreements with eight of the twelve NIS countries in FY 1996. USDA donated \$56 million in grants under the "Food for Progress" Program directly to three of the NIS countries: Georgia (\$30.0 million), Kyrgyzstan (\$15.0 million) and Tajikistan (\$11.0 million). In addition, USDA allocated a total of \$62.8 million in concessional loans under PL 480, Title I for five of the economically more stable NIS countries: Armenia (\$13.0 million), Belarus (\$9.9 million), Moldova (\$10 million), Turkmenistan (\$9.9 million) and Ukraine (\$20 million).

In FY 1996, approximately 141,000 metric tons of U.S. agricultural commodities were provided to the NIS under USDA food assistance programs administered by U.S. private voluntary organizations (PVOs). Commodities donated through the Food for Progress program helped alleviate hunger through a variety of direct distribution programs in regions experiencing difficulties in meeting consumption needs. These programs were focused on Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Russia, Tajikistan and Ukraine.

USDA Export Credit Guarantee Programs

In FY 1996, USDA provided agricultural export credit guarantees to Russia the only NIS country in which USDA deemed commercial credit an appropriate vehicle for supporting U.S. agricultural exports. USDA authorized \$70 million in FY 1996 credit guarantees to cover the sales of various agricultural commodities to Russia under the GSM-102 Program, which is aimed at increasing trade with Russia's growing private sector by working through private Russian banks. As of the end of FY 1996, over \$54 million in sales had been registered under Russia's FY 1996 program.

USAID HUMANITARIAN ASSISTANCE PROGRAMS

USAID humanitarian assistance programs in the NIS are aimed at reducing human suffering in those areas where such assistance can have the greatest impact. In FY 1996, the Caucasus (Armenia, Azerbaijan and Georgia), Tajikistan, and Chechnya continued to experience serious humanitarian problems as a result of armed conflict, civil strife, economic disruption and political instability. USAID continued to target its limited humanitarian assistance to refugees, internally displaced persons (IDPs) and certain especially vulnerable groups, such as elderly people without family support, invalids, children and large families.

As of the end of FY 1996, USAID had obligated \$355.3 million, including \$62.3 million in FY 1996, and had expended a total of \$304.4 million in response to emergency humanitarian needs in the NIS. Coordination

with the international donor community continued in FY 1996, and helped maximize the positive impact of U.S. Government contributions.

Multilateral Humanitarian Assistance: In FY 1996, USAID continued to support the humanitarian assistance appeals of several private and public international organizations. These appeals have proved to be an effective means of mobilizing resources to address humanitarian needs. USAID supported the emergency feeding activities of the World Food Program (WFP) in Azerbaijan (\$1.5 million) and Chechnya (\$1 million). USAID also continued to support to the WFP's successful Caucasus Logistics Advisory Unit (CLAU), which has played a key role in restoring and maintaining effective regional transport—especially rail transport—in the Caucasus. CLAU highlights in FY 1996 included the construction of a new rail bridge to replace a damaged bridge in Banusha, Georgia, which is the country's only active rail link to Armenia. USAID also supported International Organization for Migration (IOM) projects to build the capacity of the Governments of Armenia and Georgia to manage migration issues and humanitarian assistance. USAID provided \$2 million to the United Nations High Commissioner for Refugees (UNHCR) for assistance to those displaced by the conflict in Chechnya.

Vulnerable Group Feeding Programs: In FY 1996, USAID donations to meet NIS food aid needs were limited to cash grants to the World Food Program (WFP) for food aid to Azerbaijan and Chechnya, and to the International Federation of Red Cross and Red Crescent Societies for food aid to Georgia and Tajikistan. The programs of these international organizations targeted refugees, internally displaced persons, and socially vulnerable groups such as elderly people without family support. USAID used FY 1995 funding to continue a bilateral supplemental feeding program for pregnant/lactating women and small children in Armenia and Georgia.

Multilateral Transitional Assistance: In Tajikistan, USAID funded two activities of the United Nations Development Program (UNDP). One project was designed to rebuilding social cohesion in villages shattered by the civil war in Tajikistan through community activities and social organizations. The other activity was a multi-sector infrastructure reconstruction program to restore economic development in Tajikistan.

Caucasus PVO Grants: Save the Children USA, a U.S. private voluntary organization (PVO) operating under a cooperative agreement with USAID, continued to manage a USAID-funded umbrella grant designed to mobilize PVOs in response to humanitarian and transitional needs in Armenia, Azerbaijan and Georgia. As of the end of FY 1996, some 71 subgrants had been awarded under this program. Grantees continue to provide food, shelter and shelter rehabilitation, primary medical care, and small-scale income-generation activities for refugees, internally displaced persons and vulnerable groups.

(see also Armenia and Georgia country assessments)

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE PROGRAMS

The Humanitarian Programs Division of the Office of the Coordinator of U.S. Assistance to the NIS is responsible for coordinating and facilitating the delivery of emergency and transitional humanitarian assistance to the NIS by over 16 U.S. Government agencies, as well as for coordinating U.S. humanitarian assistance efforts with other donor countries and several international organizations. In FY 1996, the Coordinator's Office expended over \$22 million to leverage and facilitate the movement of privately donated and U.S. Government-funded humanitarian assistance commodities to targeted groups of needy individuals in the NIS.

Under a contract with Military Professional Resources, Incorporated (MPRI) and through a grants process involving selected U.S. private voluntary organizations (PVOs) working in the NIS, the Coordinator's Office transported and distributed over \$344 million in privately donated and U.S. Department of Defense excess commodities to the NIS in FY 1996. The Coordinator's Office funded several emergency and transitional humanitarian assistance programs targeted at the most needy populations in the NIS. Program highlights include the following:

- the final turnover in October 1995 of a \$5 million Defense Department excess medical package to a trauma hospital in Vladivostok, Russia;

- the delivery in October 1995 of over \$4.5 million in specially selected medical commodities to Yerevan, Armenia, in collaboration with the U.S. PVO Heart-to-Heart and its family-practice doctors;
- the delivery in October 1995 of over \$5.3 million in diphtheria/polio/tetanus (DPT) vaccines through Project Hope for the people of Uzbekistan;
- the delivery in December 1995 of over \$7.6 million in Defense Department excess medical supplies and privately donated pharmaceuticals in cooperation with the Government of Japan for the people of Georgia;
- the coordination and delivery of over 100,000 excess Defense Department humanitarian daily rations (HDRs) and \$1.4 million in medical commodities through the PVO Americares to displaced populations in critical need in the vicinity of Chechnya;
- the delivery in April 1996, by surface and air transportation, of \$15.3 million in high-value, cancer-related medical supplies to commemorate the 10th anniversary of the Chornobyl disaster, including \$11.3 million for the people of Ukraine, \$3 million for the people of Belarus, and \$1 million for the people of Moldova;
- the coordination and delivery of a \$15 million Defense Department excess hospital package to Armenia and a \$500,000 follow-up package to Moldova;
- final coordination and delivery of commodities associated with the \$20 million Project Sapphire program in Kazakstan. This included medical commodities valued at \$1.5 million for Ust-Kamenogorsk and \$5.3 million for Kurchatov; and
- the culmination in September 1996 of a two-year joint program with the USAID-funded Program for Appropriate Technologies in Health (PATH) to deliver and distribute over \$8.2 million in diphtheria and tetanus vaccines and insulin to the people of Ukraine.

The Coordinator's Office leverages its limited amount of transportation funding for humanitarian assistance, so as to make the greatest possible difference in its efforts to address the humanitarian needs of the NIS countries. The following are country-by-country summaries of humanitarian assistance provided by the Coordinator's Office (S/NIS/C) in FY 1996:

S/NIS/C HUMANITARIAN ASSISTANCE TO ARMENIA

AS OF SEPTEMBER 30, 1996

(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Armenia. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	<u>TOTAL</u>
1992	Airlift	17		1.84	22.47	
1992	Surface		4	0.02	2.8	
	Operation Provide Hope II (Food&Med.)			0.1	1.06	
1992 TOTAL		17	4	1.96	26.33	28.29
1993	Airlift	22		3.05	7.78	
1993	Surface		1024	6.08	23.92	
	CARE Grant			0.83		
	Fuel Shipments (Mazout)			5.15		
1993 TOTAL		22	1024	15.11	31.7	46.81
1994	Airlift	5		0.7	10.35	
1994	Surface		152	1.6	5.93	
	Japanese Kerosene			0.5		
	Fuel Shipments (Mazout)			3		
	ATG Winter Wheat Seed			1		
	Caucasus Logistics Assistance Unit			1.75		
	CRS Grant			0.5		
	WFP Grant			1.5		
	CARE Grant			0.06		
	UMCOR Grant			0.25		
1994 TOTAL		5	152	10.86	16.28	27.14
1995	Airlift	9		0.92	12.87	
1995	Surface		202	1.55	14.83	
	Winter & Spring Fertilizer			0.12		
	Winter Wheat & Barley Seed			0.43		
	Winter Diesel, Kerosene & Mazout			2.04		
	WFP Grant			0.95		
	Heart to Heart Grant			0.16		
	Counterpart Grant			0.1		
	CARE Grant			0.17		
	UMCOR Grant			0.33		
1995 TOTAL		9	202	6.77	27.7	34.47
1996	Airlift	8		0.96	19.04	
1996	Surface		161	0.93	15.76	
	Barley Seed & 2,000 MT of Fall Wheat			0.3		

UMCOR Grant 0.36
Counterpart Grant 0.18

1996 TOTAL	8	161	2.73	34.8	37.53
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CUMULATIVE TOTAL	61	1543	37.43	136.81	174.24
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S/NIS/C HUMANITARIAN ASSISTANCE TO AZERBAIJAN
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Azerbaijan. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	<u>TOTAL</u>
1992	Airlift	5		0.22	8.8	
1992	Surface		2	0.02	0.42	
	Operation Provide Hope II (Food&Med.)			0.3	1.3	
1992 TOTAL		5	2	0.54	10.52	11.06
1993	Airlift	4		0.13	0.92	
1993	Surface		0			
	CARE Grant			0.44		
1993 TOTAL		4	0	0.57	0.92	1.49
1994	Airlift	8		0.6	4.7	
1994	Surface		4	0.01	0.4	
	CARE Grant			0.04		
	Relief International Grant			0.04		
	Medicines Sans Frontiers			0.01		
	WFP Grant			1		
1994 TOTAL		8	4	1.7	5.1	6.8
1995	Airlift	0				
1995	Surface		41	0.26	2.52	
	Relief Int'l. Grant			0.03		
	CARE Grant			0.17		
	WFP Grant			1.6		
1995 TOTAL		0	41	2.06	2.52	4.58
1996	Airlift	1		0.07	0.53	
1996	Surface		30	0.29	2.58	
	UMCOR Grant			0.36		
	Project HOPE Grant			0.05		
	Counterpart Grant			0.09		
	Intl Relief Cmte Grant			0.01		
	WFP Grant			0.4		
1996 TOTAL		1	30	1.27	3.11	4.38
CUMULATIVE TOTAL		18	77	6.14	22.17	28.31

S/NIS/C HUMANITARIAN ASSISTANCE TO BELARUS

AS OF SEPTEMBER 30, 1996

(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Belarus. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		<u>TOTAL</u>
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	
1992	Airlift	8		0.41	13.36	
1992	Surface		8	0.01	0.17	
1992 TOTAL		8	8	0.42	13.53	13.95
1993	Airlift	3		0.27	3.05	
1993	Surface		75	0.51	10.42	
1993 TOTAL		3	75	0.78	13.47	14.25
1994	Airlift	2		0.21	1.82	
1994	Surface		113	0.45	12.32	
	DoD Excess Hospital (Minsk-Aug'94)			1.5	11.2	
1994 TOTAL		2	113	2.16	25.34	27.5
1995	Airlift	1		0.11	2.5	
1995	Surface		108	0.54	14.99	
	Counterpart Grant			0.1		
1995 TOTAL		1	108	0.75	17.49	18.24
1996	Airlift	4		0.44	11.83	
1996	Surface		172	0.81	28.07	
	Counterpart Grant			0.1		
1996 TOTAL		4	172	1.35	39.9	41.25
CUMULATIVE TOTAL		18	476	5.46	109.73	115.19

S/NIS/C HUMANITARIAN ASSISTANCE TO GEORGIA
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Georgia. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		<u>TOTAL</u>
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	
1992	Airlift	19		1.04	17.38	
1992	Surface		0			
	DoD Excess Hospital (Tbilisi-Sep'92)			2	15	
	ACTS Grant			0.05		
	Operation Provide Hope II (Food & Med.)			0.1	1.92	
1992 TOTAL		19	0	3.19	34.3	37.49
1993	Airlift	10		0.89	9.9	
1993	Surface		386	2.33	22.71	
	ACTS Grant			0.46		
	CARE Grant			0.83		
	Fuel Shipment (Mazout)			5.15		
1993 TOTAL		10	386	9.66	32.61	42.27
1994	Airlift	30		2.6	20.79	
1994	Surface		184	1.19	29.59	
	Japanese Kerosene			0.3		
	ACTS Grant			0.7		
	CRS Grant			0.5		
	CARE Grant			0.06		
	UMCOR Grant			0.35		
	WFP Grant			1		
	Caucasus Logistics Assistance Unit			1.75		
1994 TOTAL		30	184	8.45	50.38	58.83
1995	Airlift	10		0.69	8.47	
1995	Surface		178	1.27	8.74	
	Fuel Shipment (Mazout - Oct. '94)			2		
	ACTS Grant			0.38		
	WFP Grant			1		
	Counterpart Grant			0.65		
	CARE Grant			0.26		
	UMCOR Grant			0.28		
	DoD Hospital Upgrade (Tbilisi-Jun'95)			0.15	1.35	
1995 TOTAL		10	178	6.68	18.56	25.24
1996	Airlift	12		1.05	21.82	
1996	Surface		237	1.47	19.37	

UMCOR Grant			0.35		
ACTS Grant			0.33		
Counterpart Grant			0.25		

1996 TOTAL	12	237	3.45	41.19	44.64
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CUMULATIVE TOTAL	81	985	31.43	177.04	208.47
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S/NIS/C HUMANITARIAN ASSISTANCE TO KAZAKSTAN
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Kazakstan. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		<u>TOTAL</u>
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	
1992	Airlift	9		0.9	22	
1992	Surface		4	0.03	0.25	
	Operation Provide Hope II (Food&Med.)			0.5	3.22	
1992 TOTAL		9	4	1.43	25.47	26.9
1993	Airlift	6		0.9	9.8	
1993	Surface		28	0.2	1.4	
1993 TOTAL		6	28	1.1	11.2	12.3
1994	Airlift	3		0.47	11.4	
1994	Surface		226	0.36	7.2	
	UMCOR Grant			0.07		
1994 TOTAL		3	226	0.9	18.6	19.5
1995	Airlift	8		0.88	9.42	
1995	Surface		198	1.13	8.05	
	DoD Excess Hospital (Almaty-Dec'94)			2.1	13.5	
	Counterpart Grant			0.1		
	UMCOR Grant			0.03		
1995 TOTAL		8	198	4.24	30.97	35.21
1996	Airlift	6		0.77	7.66	
1996	Surface		56	0.44	4.92	
	Project Sapphire			0.1		
	Counterpart Grant			0.1		
	Heart to Heart Grant			0.11		
	DoD Excess Hospital (Semi/Kurch-Nov'95)			0.68	5.32	
	DoD Excess Hospital (Ust-Kamenogorsk-Jun'96)			0.02	1.48	
1996 TOTAL		6	56	2.22	19.38	21.6
CUMULATIVE TOTAL		32	512	9.89	105.62	115.51

S/NIS/C HUMANITARIAN ASSISTANCE TO KYRGYZSTAN
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Kyrgyzstan. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	<u>TOTAL</u>
1992	Airlift	6		0.37	10.4	
1992	Surface					
	Operation Provide Hope II (Food&Med.)			0.1	2.15	
1992 TOTAL		6	0	0.47	12.55	13.02
1993	Airlift	8		0.86	5.61	
1993	Surface					
	DoD Excess Hospital (Bishkek-Apr'93)			1.5	17.7	
1993 TOTAL		8	0	2.36	23.31	25.67
1994	Airlift	5		0.49	9.58	
1994	Surface		18	0.09	1.14	
1994 TOTAL		5	18	0.58	10.72	11.3
1995	Airlift	2		0.12	0.8	
1995	Surface		42	0.16	0.45	
	DoD Hospital Upgrade (Bishkek-Jun'95)			0.15	1.35	
1995 TOTAL		2	42	0.43	2.6	3.03
1996	Airlift	0		0	0	
1996	Surface		36	0.26	3.17	
	Heart to Heart Grant			0.11		
1996 TOTAL		0	36	0.37	3.17	3.54
CUMULATIVE TOTAL		21	96	4.21	52.35	56.56

S/NIS/C HUMANITARIAN ASSISTANCE TO MOLDOVA
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Moldova. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		<u>TOTAL</u>
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	
1992	Airlift	4		0.2	7.5	
1992	Surface		6	0.05	0.57	
	Operation Provide Hope II (Food&Med.)			0.3	1.1	
1992 TOTAL		4	6	0.55	9.17	9.72
1993	Airlift	4		0.36	7	
1993	Surface		109	0.52	6	
1993 TOTAL		4	109	0.88	13	13.88
1994	Airlift	4		0.09	0.5	
1994	Surface		55	0.3	9.2	
	DoD Excess Hospital (Chisinau-Aug'94)			1.2	12.5	
	Counterpart Grant			0.02		
	Oil & Coal			4.1		
1994 TOTAL		4	55	5.71	22.2	27.91
1995	Airlift	0				
1995	Surface		113	0.62	6.17	
	Counterpart Grant			0.02		
1995 TOTAL		0	113	0.64	6.17	6.81
1996	Airlift	3		0.17	0.69	
1996	Surface		103	0.35	6.84	
	DoD Hospital Upgrade (Chisinau-Jul'96)			0.15	1.35	
1996 TOTAL		3	103	0.67	8.88	9.55
CUMULATIVE TOTAL		15	386	8.45	59.42	67.87

S/NIS/C HUMANITARIAN ASSISTANCE TO RUSSIA

AS OF SEPTEMBER 30, 1996

(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Russia. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSP. COST / GRANTS		
				(COST TO U.S. GOVT.)	VALUE	TOTAL
1992	Airlift	65		5.53	130.94	
1992	Surface		311	1.5	16.96	
	Heart to Heart Grant			0.02		
	CARE Grant			2		
	Operation Provide Hope II (Food&Med.)			2.6	29.51	
1992 TOTAL		65	311	11.65	177.41	189.06
1993	Airlift	12		1.14	25.34	
1993	Surface		1034	4.42	45.25	
	CARE Grant			1.81		
	Family to Family Grant			0.02		
	Miramed Institute Grant			0.01		
	Helping Hand & Open Curtain Grant			0.02		
	CRS Grant			0.17		
	Salvation Army Grant			0.02		
	Operation Provide Hope III (MRE's, Food)			2.63	40	
	Two DoD Excess Hospitals (Moscow-Oct'93)			1.7	36	
1993 TOTAL		12	1034	11.94	146.59	158.53
1994	Airlift	2		0.31	8.2	
1994	Surface		1176	4.39	86.44	
	CRS Grant			0.5		
	Counterpart Grant			0.28		
1994 TOTAL		2	1176	5.48	94.64	100.12
1995	Airlift	27		1.99	9.39	
1995	Surface		890	4.93	67.75	
	Counterpart Grant			0.02		
1995 TOTAL		27	890	6.94	77.14	84.08
1996	Airlift	13		0.46	7.84	
1996	Surface		351	1.42	34.6	
	DoD Excess Hospital (Vladivostok-Oct'95)			0.5	4.5	
1996 TOTAL		13	351	2.38	46.94	49.32
CUMULATIVE TOTAL		119	3762	38.39	542.72	581.11

S/NIS/C HUMANITARIAN ASSISTANCE TO TAJIKISTAN
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Tajikistan. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	<u>TOTAL</u>
1992	Airlift	8		0.56	11.61	
1992	Surface		4	0.02	0.21	
	Operation Provide Hope II (Food&Med.)			0.2	2.49	
1992 TOTAL		8	4	0.78	14.31	15.09
1993	Airlift	3		0.34	1.28	
1993	Surface		7	0.05	0.05	
	Aga Khan Grant			0.28		
1993 TOTAL		3	7	0.67	1.33	2
1994	Airlift	4		0.57	3.1	
1994	Surface		4	0.02	0.09	
	CARE Grant			0.04		
1994 TOTAL		4	4	0.63	3.19	3.82
1995	Airlift	2		0.32	0.75	
1995	Surface		39	0.31	2.42	
	Aga Khan Grant			0.12		
1995 TOTAL		2	39	0.75	3.17	3.92
1996	Airlift	0		0	0	
1996	Surface		11	0.08	1.14	
	Relief Int'l. Grant			0.02		
1996 TOTAL		0	11	0.1	1.14	1.24
CUMULATIVE TOTAL		17	65	2.93	23.14	26.07

S/NIS/C HUMANITARIAN ASSISTANCE TO TURKMENISTAN
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Turkmenistan. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		<u>TOTAL</u>
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	
1992	Airlift	9		0.77	12.53	
1992	Surface		2	0.02	0.3	
	Operation Provide Hope II (Food&Med.)			0.1	1.44	
1992 TOTAL		9	2	0.89	14.27	15.16
1993	Airlift	3		0.2	1.44	
1993	Surface		0			
1993 TOTAL		3	0	0.2	1.44	1.64
1994	Airlift	5		0.33	2.04	
1994	Surface		1	0.01	0.18	
1994 TOTAL		5	1	0.34	2.22	2.56
1995	Airlift	1		0.18	3.2	
1995	Surface		8	0.05	0.58	
1995 TOTAL		1	8	0.23	3.78	4.01
1996	Airlift	0		0	0	
1996	Surface		1	0.01	0.07	
1996 TOTAL		0	1	0.01	0.07	0.08
CUMULATIVE TOTAL		18	12	1.67	21.78	23.45

S/NIS/C HUMANITARIAN ASSISTANCE TO UKRAINE

AS OF SEPTEMBER 30, 1996

(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Ukraine. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		<u>TOTAL</u>
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	
1992	Airlift	9		0.7	19.3	
1992	Surface		54	0.24	2.2	
	Operation Provide Hope II (Food&Med.)			0.1	1.3	
1992 TOTAL		9	54	1.04	22.8	23.84
1993	Airlift	5		0.39	3.6	
1993	Surface		255	1.83	19.5	
	Helping Hand & Open Curtain Grant			0.02		
	Counterpart Grant			0.01		
1993 TOTAL		5	255	2.25	23.1	25.35
1994	Airlift	4		0.53	12.3	
1994	Surface		550	1.2	29.6	
	Counterpart Grant			0.35		
1994 TOTAL		4	550	2.08	41.9	43.98
1995	Airlift	13		1.17	9.86	
1995	Surface		975	4.78	49.17	
	DoD Excess Hospital (Donetsk-Apr'96)			0.41	18.09	
	Counterpart Grant			0.08		
1995 TOTAL		13	975	6.44	77.12	83.56
1996	Airlift	15		0.79	19.63	
1996	Surface		730	3.78	66.51	
1996 TOTAL		15	730	4.57	86.14	90.71
CUMULATIVE TOTAL		46	2564	16.38	251.06	267.44

S/NIS/C HUMANITARIAN ASSISTANCE TO UZBEKISTAN
AS OF SEPTEMBER 30, 1996
(values are in millions of dollars)

The following is a listing of humanitarian assistance funded by the State Department (S/NIS/C) to Uzbekistan. This includes special projects, Department of Defense excess property, and privately donated material (food, clothing, shelter, medical supplies, and medical equipment) shipped by air and surface. (Note: Containers are always surface shipments)

<u>FISCAL YR.</u>	<u>METHOD</u>	<u>FLIGHTS</u>	<u>CONTAINERS</u>	<u>TRANSP. COST / GRANTS</u>		<u>TOTAL</u>
				<u>(COST TO U.S. GOVT.)</u>	<u>VALUE</u>	
1992	Airlift	12		1.12	9.58	
1992	Surface		0			
	Operation Provide Hope II (Food&Med.)			0.1	1.85	
1992 TOTAL		12	0	1.22	11.43	12.65
1993	Airlift	4		0.31	4.68	
1993	Surface		3	0.03	0.16	
1993 TOTAL		4	3	0.34	4.84	5.18
1994	Airlift	1		0.14	1.29	
1994	Surface		33	0.21	1.81	
1994 TOTAL		1	33	0.35	3.1	3.45
1995	Airlift	0				
1995	Surface		49	0.37	2.36	
1995 TOTAL		0	49	0.37	2.36	2.73
1996	Airlift	2		0.1	5.6	
1996	Surface		45	0.36	3.25	
1996 TOTAL		2	45	0.46	8.85	9.31
CUMULATIVE TOTAL		19	130	2.74	30.58	33.32

OTHER PROGRAMS

EURASIA FOUNDATION

The Eurasia Foundation is a nongovernmental organization partially funded by the U.S. Government which was established to complement direct U.S. Government assistance to the NIS by providing a rapid-response, flexible, on-the-ground mechanism for making large numbers of relatively small grants in support of political and economic reform in the NIS. The Foundation's key objectives are to reach a wide range of groups quickly with targeted assistance and to increase the number and diversity of groups receiving U.S. Government and private funds, particularly in the areas of private-sector development, public-sector reform, and media and communications. To facilitate outreach to NIS organizations and provide for easier monitoring and evaluation of grants, the Eurasia Foundation has established field offices staffed by Americans and host-country nationals in Moscow, Kiev, Tashkent, Saratov and the Russian Far East.

In FY 1996, the Eurasia Foundation awarded 776 grants for technical assistance, training, educational activities and policy research, primarily to NIS organizations but also to U.S. organizations with NIS partners. The average grant amount was \$20,000. In addition to awarding grants, the Eurasia Foundation also made program-related investments (PRIs), which are recoverable grants or loans designed to promote small-business development. The PRI requires the recipient business to be fiscally responsible with its funds, because repayment terms must be met. In addition, the PRI mechanism allows the Foundation to make reform-oriented grants to commercial organizations in cases where a profit might be made but local credit is not accessible, usually because highly conservative local banks do not want to make loans to small businesses. In FY 1996, the Eurasia Foundation approved 26 PRI loans in Armenia and Ukraine totaling over \$669,000. During the latter half of FY 1996, the Eurasia Foundation implemented two new programs: the Economic Education and Research Consortium (EERC) and the Media Viability Fund (MVF).

The **Economics Education and Research Consortium (EERC)** is designed to strengthen economics education and research capabilities in Russia and Ukraine. Doing so over the longer term requires reform of higher-level economics training and research, as well as the building of sustainable, internationally-recognized institutions. Under the Ukrainian component of EERC, the Eurasia Foundation is collaborating with the Kyiv-Mohyla Academy, a leading Ukrainian university, to establish a high-quality graduate program in market economics—the first of its kind in Ukraine. The Russian component of EERC is focused on supporting original policy-oriented research in economics by awarding individual research grants to promising Russian researchers. In designing the EERC, the Eurasia Foundation leveraged the support of the Open Society Institute/Soros Foundation, the World Bank, the Ford Foundation, and the Pew Charitable Trusts. With the help of these funders, the Eurasia Foundation has raised over 60 percent of the EERC's projected \$7 million budget for its first three years of operation.

The **Media Viability Fund (MVF)**, a joint initiative of the Eurasia Foundation and the Soros Foundation's Media Development Loan Fund, was established to make low-cost loans and provide technical assistance to independent newspapers, magazines, and radio and television stations in the NIS. The MVF targets areas in Russia and Ukraine with high concentrations of media outlets, where several newspapers and other media outlets can mutually benefit from a loan and technical assistance. By providing loans for independent printing presses, alternative distribution systems, working capital and other projects which diminish government control of the media, the MVF will not only build the financial and institutional capacities of each country's independent media sector, but will also increase public access to information and will thus lead to increased, better-informed citizen participation in political and economic decision-making.

Private-Sector Funding: As of the end of FY 1996, the Eurasia Foundation had spent approximately \$200,000 for fundraising activities leveraging a total of \$5.0 million in commitments from private sources for its NIS programs. In FY 1997, the Foundation expects to raise another \$2.6 million—approximately 10 percent of its planned FY 1997 budget and 13 percent of its planned USAID obligation for FY 1997.

PEACE CORPS

The Peace Corps' primary objective in the NIS is to work directly with people and local institutions at the grassroots level to help them make the transition from a centrally controlled authoritarian regime to a democratic, free-market system. By living in the communities they serve, learning the local language and dealing with local problems, Peace Corps volunteers build close working relationships with their host communities.

As of the end of FY 1996, there were approximately 741 Peace Corps volunteers in eight NIS countries—Armenia, Kazakstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan—working primarily in three programming sectors: education (60 percent), economic development (33 percent) and environment (7 percent). The overall number of volunteers in the NIS will continue to grow in FY 1997.

- **Education Projects:** The Peace Corps' education projects in the NIS typically focus on teaching English as a foreign language, with most volunteers teaching at the secondary-school level. While the number of volunteers at the university level was decreasing in FY 1996, the number teaching at the primary-school level was growing. All of the Peace Corps' education projects focused on building their curricula in response to expressed community needs for English-language training.
- **Economic Development Projects:** In FY 1996, the Peace Corps implemented economic development projects in six of the NIS countries: Armenia, Kazakstan, Kyrgyzstan, Russia, Ukraine and Uzbekistan. These projects involved work with a variety of institutions, including business advisory centers, banks, local governments, educational institutions, nongovernmental organizations (NGOs), and business associations. There was a growing emphasis on business education in all of the NIS countries in FY 1996.
- **Environmental Projects:** The Peace Corps implemented environmental projects in Kazakstan and Russia in FY 1996, and plans to start a new environmental project in Ukraine in FY 1997. Environmental volunteers worked to strengthen the capabilities of both nongovernmental and governmental organizations to conduct public education on environmental issues, and implemented a variety of environmental projects. In FY 1996, there was a dramatic increase in the number of NIS Peace Corps volunteers in all sectors who were involved in environmental education.

(see also Armenia, Kazakstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan country assessments)

U.S. SUPPORT FOR INTERNATIONAL FINANCIAL INSTITUTIONS

In addition to bilateral assistance from the United States and other donors, the NIS countries continued to draw upon the support of international financial institutions in FY 1996, which with the strong support of the United States and its G-7 partners, responded innovatively to the special circumstances of post-Soviet economic transition. The three international financial institutions most active in the region—the International Monetary Fund (IMF), the World Bank, and the European Bank for Reconstruction and Development (EBRD)—continued to increase their level of activity in the NIS in FY 1996.

The International Monetary Fund (IMF)

In the years following the dissolution of the Soviet Union, most NIS countries have successfully stabilized their economies with short-term financial assistance from the IMF. Utilizing IMF resources has allowed NIS countries to undertake needed structural reforms, reduce inflation, avoid balance-of-payments problems, and lay the foundations for economic growth.

In order to receive IMF financial support, the NIS countries must agree to implement economic reform programs. Disbursed in tranches, IMF loans are conditional on observance of reform-oriented economic criteria. In addition to financial assistance, the IMF administers an extensive technical assistance program in the NIS. The IMF also works closely to coordinate its programs with those of other international financial institutions such as the World Bank and European Bank for Reconstruction and Development (EBRD).

New IMF resources committed to the NIS increased significantly in FY 1996 to over \$12 billion, as several countries completed short-term IMF programs and were approved for medium-term programs. Russia accounted for most of these new commitments, as the IMF approved over \$10 billion for a three-year economic program. The IMF's medium-term programs allow countries that have already stabilized their economies to broaden and deepen structural reforms necessary for rapid economic growth.

While economic performance under IMF programs in the NIS was generally positive in FY 1996, not all loans were disbursed as scheduled. Fiscal problems, notably with tax collection, caused the IMF to temporarily delay disbursements for Russia and Ukraine. In Belarus and Uzbekistan, the IMF suspended disbursements on account of unsatisfactory economic performance. However, economic improvements in the Caucasus led the IMF to approve new lending programs in FY 1996 for Armenia, Azerbaijan and Georgia.

The European Bank for Reconstruction and Development (EBRD)

The EBRD was established in March 1991 to support market-oriented economic reform and democratic pluralism in Central and Eastern Europe, including the NIS. All of the NIS countries are members of the EBRD. The EBRD is unique among multilateral development banks in its private-sector focus and inclusion of political conditionality which requires beneficiary countries to be committed to democracy and the rule of law.

Through the end of FY 1996, the EBRD had made cumulative commitments (net of cancellations) to individual NIS countries of approximately ECU 3.4 billion* out of EBRD's total country-specific commitments of about ECU 8.8 billion. This NIS figure does not include approximately ECU 554 million in regional projects, such as venture funds, that the EBRD has financed, some of which benefit the NIS. Russia is the single largest beneficiary of EBRD commitments, accounting for 24 percent of total EBRD Board approvals.

According to its charter, the EBRD is required to devote 60 percent of its total resources to private-sector projects within five years of its start-up. As the end of FY 1996, 71 percent by value and almost 80 percent by volume of the EBRD's commitments were to the private sector. The EBRD is also supposed to meet the 60-percent threshold in each individual country of operation within five years of beginning operations in that country. Among the NIS, more than 60 percent by value of the EBRD's commitments are to the private sector in Kazakstan, Russia, Turkmenistan, Ukraine and Uzbekistan, although the target has not yet been met in the other seven NIS.

CUMULATIVE EBRD BOARD APPROVALS TO THE NIS
THROUGH SEPTEMBER 30, 1996
(in millions of ECU*)

<u>Country</u>	<u>Value</u>	<u>Number</u>	<u>Percentage to Private Sector</u>
Armenia	76.2	3	0
Azerbaijan	69.4	3	12
Belarus	163.3	6	28
Georgia	23.9	2	2
Kazakistan	171.1	3	75
Kyrgyzstan	87.2	6	57
Moldova	109.0	8	39
Russia	2090.9	72	87
Tajikistan	0.0	0	N/A
Turkmenistan	53.1	2	100
Ukraine	306.5	16	70
Uzbekistan	209.7	9	81
TOTAL	3360.3	130	

* One ECU equals approximately \$1.25. Totals for individual countries reflect cancellations of previously approved projects and exchange rate variations. These figure represent approvals by the EBRD Board, not actual signed commitments, which are lower.

U.S. CONTRIBUTIONS TO THE EBRD

FY 1991	\$70 million
FY 1992	\$69 million
FY 1993	\$60 million
FY 1994	\$0
FY 1995	\$69.2 million
FY 1996	\$70 million
FY 1997	\$12 million

U.S. contributions to the EBRD were to be paid in five annual installments of \$70 million. Except for FY 1991, appropriations fell short of the \$70 million target, leaving the United States with arrears of more than \$80 million after the five-year period. (These arrears will be fully cleared in FY 1997.)

In early 1996, the EBRD Board of Governors approved a doubling of the EBRD's total (paid-in plus callable) capital from ECU 10 billion to ECU 20 billion. This increase should put the EBRD on a self-sustaining basis, with no future capital increases envisioned. In FY 1998, the U.S. should begin payment for the capital increase at a rate of approximately \$36 million per year over eight years.

The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)

The IBRD and IDA, which are part of the World Bank Group, provide project- and adjustment-lending (balance-of-payments support based on policy reform) to developing countries. Poverty reduction and sustainable development are the central objectives of the IBRD's activities. The IBRD lends at near-commercial rates, while the IDA provides credits to the poorest countries at highly concessional rates. Based on relative poverty and creditworthiness criteria, Tajikistan is eligible to borrow only on IDA terms; while Armenia, Azerbaijan, Georgia and Kyrgyzstan are eligible for both IDA and IBRD terms, although all but \$12 million of their credits have been on IDA terms. The other NIS countries are eligible only for the less concessional IBRD terms.

During the World Bank's fiscal year of July 1, 1995 to June 30, 1996, IBRD and IDA approved almost \$2.9 billion in loans for the NIS. Actual disbursement has lagged behind approvals considerably in a number of NIS countries, usually due to administrative delays in the borrowing country or failure to meet loan

conditionalities. The IBRD is working intensively with several NIS countries to improve the speed of project implementation.

IBRD AND IDA COMMITMENTS*
(in millions of dollars)

<u>Country</u>	<u>FY 1996</u>	<u>Cumulative Total (through 6/96)</u>
Armenia	79.8	248.5
Azerbaijan	83.0	164.8
Belarus	0.0	170.2
Georgia	90.8	193.9
Kazakstan	260.0	816.8
Kyrgyzstan	98.5	313.5
Moldova	20.0	231.0
Russia	1816.0	6447.3
Tajikistan	5.0	5.0
Turkmenistan	0.0	25.0
Ukraine	342.8	1015.8
<u>Uzbekistan</u>	<u>0.0</u>	<u>247.0</u>
TOTALS	2795.9	9878.9

* These figures represent projects approved by the IBRD Board of Directors, not actual disbursements, which are lower.

PROGRAM FOR RESEARCH AND TRAINING ON EASTERN EUROPE AND THE NIS (TITLE VIII)

In 1983, the U.S. Congress passed the Research and Training for Eastern Europe and the Independent States of the Former Soviet Union Act (Title VIII), which was designed to reverse the decline in the number of U.S. experts on these regions by providing stable, long-term financing on a national level for advanced research; graduate area studies and language training (both U.S.-based and in-country); public dissemination of research data, methods and findings; and contact and collaboration among governmental and nongovernmental specialists.

The Title VIII program operates under the guidance of an advisory committee chaired by the Department of State and consisting of representatives of the Secretaries of Defense and Education, the Librarian of Congress, and the presidents of the American Association for the Advancement of Slavic Studies (AAASS) and the Association of American Universities. Under the program's two-stage award process, the Department of State conducts an annual open competition among national organizations with interest and expertise in administering research and training programs in the NIS and Central European fields. The U.S. Congress appropriated about \$4.6 million annually for Title VIII activities from FY 1985 to FY 1990, and in light of the dramatic changes in the region, about \$10 million annually from FY 1991 to FY 1994. In FY 1995, the Title VIII program was funded at \$7.5 million, with \$5.0 million from the FREEDOM Support Act for projects on the NIS and \$2.5 million from the Support for East European Democracy (SEED) Act for projects on Central Europe (CE), including the Baltic countries. In FY 1996, the Title VII program was funded at \$5.0 million, with \$3.3 million from the FREEDOM Support Act and \$1.7 million from the SEED Act. The following is a list of FY 1996 Title VIII grant recipients for NIS-related projects, including the amounts and purposes of their awards:

American Council of Teachers of Russian / American Council for Collaboration in Education and Language Study (ACTR/ACCELS)

- Grant: \$150,000 (\$130,000 NIS; \$20,000 CE/Baltics)

- Purpose: To support graduate students, post-doctoral fellows and junior faculty members in Russian, Eurasian and Central European studies for advanced on-site language training and research;

Council on International Educational Exchange (CIEE)

- Grant: \$50,000 (NIS only)
- Purpose: To support fellowships for advanced and specialized on-site Russian language training;

International Research and Exchanges Board (IREX)

- Grant: \$1,195,000 (\$805,000 NIS; \$390,000 CE/Baltics)
- Purpose: To support a variety of programs facilitating U.S. scholarly access to Russia, Eurasia and Central Europe, including individual field-research grants, pre-departure orientation programs, short-term travel grants, special collaborative projects and dissemination of research findings to U.S. policy-makers and opinion leaders through policy forums, books and other publications;

Joint Committee on the Soviet Union and its Successor States (JCSSS)

- Grant: \$865,000 (\$825,000 NIS; \$40,000 CE/Baltics)
- Purpose: To support a national fellowship program for advanced graduate training, dissertation completion, junior post-doctoral research, workshops on critical themes in post-Soviet studies; and a competition for grants to U.S. institutions offering intensive training in the NIS languages;

National Academy of Sciences (NAS)

- Grant: \$70,000 (\$25,000 NIS; \$45,000 CE/Baltics)
- Purpose: To support Young Investigator programs in forest management in Russia and worker health in Ukraine;

National Council for Soviet and East European Research (NCSEER)

- Grant: \$1,120,000 (\$810,000 NIS; \$310,000 CE/Baltics)
- Purpose: To conduct a one or more national competitions among U.S. institutions of higher education and non-profit organizations in support of advanced research projects on Russia, Eurasia and East-Central Europe.

Stanford University - Hoover Institution on War, Revolution and Peace

- Grant: \$125,000 (\$85,000 NIS; \$40,000 CE/Baltics)
- Purpose: To support resident post-doctoral fellowships and summer grants;

University of Illinois at Urbana-Champaign

- Grant: \$120,000 (\$100,000 NIS; \$20,000 CE/Baltics)
- Purpose: To provide partial funding for the University's Summer Research Laboratory and the Slavic Reference Service.

Woodrow Wilson Center for International Scholars

- Grant: \$725,000 (\$465,000 NIS; \$260,000 CE/Baltics)
- Purpose: To support research scholarships, fellowships and internship, short-term grants, meetings and outreach publications of the Kennan Institute for Advanced Russian Studies and the East European Studies Program.

IV. ASSESSMENTS OF PROGRESS IN MEETING THE STANDARDS OF SECTION 498A OF THE FOREIGN ASSISTANCE ACT OF 1961

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

ARMENIA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

The Government of Armenia’s proclaimed aim is to build a parliamentary democracy as the basis of its form of government. However, progress toward democracy, and the rule of law remains slow and incremental. The Armenian constitution was adopted by popular referendum in July 1995, coincident with the election of a transitional 190-member legislature. International observers stated that the Parliamentary elections and Constitutional referendum were “free but not fair,” citing polling deficiencies, lack of cooperation by the Electoral Commission and the failure to register opposition parties and candidates. However, observers also noted that several opposition parties and candidates were able to mount credible campaigns and proper polling procedures were generally followed. Current President Levon Ter-Petrossian, who has extensive powers under the new constitution, was narrowly reelected in a contested multi-candidate election in September 1996 with 51.75 percent of the vote according to official results. Fifty percent of the vote was required to avoid a run-off election. The presidential election was conducted after the adoption of a somewhat improved election law and the selection of new Central Election Commission members. International election observers noted a well-managed process on election day in many of the local precincts which they visited. However, international observers also reported that serious breaches of the new law and numerous irregularities overshadowed the pre-election day improvements. Following announcement of the official election results, the opposition contested the results before the Constitutional Court. Municipal and local elections held in November were plagued by extensive irregularities, notwithstanding the initial observation by COE observers that they were “free and fair” at the precincts which they visited.

The Government maintains monopoly control over nationwide television and radio broadcasting, although local independent stations are emerging. Opposition candidates in the presidential election protested that their access to the media was severely constrained compared to that of the incumbent president. The Government closed down the newspapers and civic organizations of the Dashnak party in December 1994 soon after suspending the party on allegations of plotting revolt and terrorism. Charges were brought against another newspaper representing opposing views, but were thrown out by a district court in a demonstration of a strengthening judiciary. After violence broke out following the presidential election, the Government closed opposition party offices for several weeks, but did not curtail opposition newspapers.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

Armenia had suffered one of the sharpest declines of economic activity in the NIS due to a combination of factors: (a) the conflict over Nagorno-Karabakh, (b) the embargoes by Turkey and Azerbaijan and the resultant dramatic reduction in imports of fuel and raw materials, (c) destruction caused by the 1988 earthquake, and (d) the collapse of traditional trade patterns which all the NIS have experienced with the breakup of the Soviet Union.

Nevertheless, the Government of Armenia, helped by the ceasefire that has been in effect in Nagorno-Karabakh since May 1994, has been able to carry out wide-ranging economic reforms which paid off in dramatically lower inflation. Armenia registered strong economic growth in 1995 and 1996, building on the turnaround that began in 1994.

In 1994-1995, IMF short-term lending programs supported Armenia's macro-economics reforms. With this assistance, the Government has strengthened its macro-economics management (including increasing revenue collection), liberalized almost all prices, eliminated most exchange and trade restrictions, and accelerated privatization, and achieved remarkable exchange rate stability of the local currency (the dram). In February 1996, the IMF approved a three-year loan of \$148 million under its enhanced structural adjustment facility (ESAF) to deepen structural reforms among the countries in the region.

Privatization in the agriculture and housing sectors has been extensive, with 90 percent of arable land privatized and about 62 percent of the formerly state-owned housing stock privately owned. Privatization of businesses is proceeding at a slower pace, with 60 percent of small-scale enterprises and 23 percent of medium- and large-scale enterprises privatized so far.

Armenia is making significant progress establishing the legal and institutional framework which will facilitate further economic progress and foster an environment attractive to foreign investment. A liberal foreign investment law was approved in 1994. Armenia ratified a trade agreement, which enables it to receive most-favored nation (MFN) status and incorporates intellectual property rights provisions, an OPIC agreement, and a bilateral investment treaty with the U.S. Armenia is laying the legislative and administrative foundations for an early entry into the WTO (mid-1997). Armenia has also expressed interest in negotiating a tax treaty, and is receiving U.S. technical assistance in revising its tax structure. Armenia has joined the International Monetary Fund and the International Bank for Reconstruction and Development.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The observance of human rights in Armenia improved incrementally in 1996, but remains uneven and marked by serious shortcomings. Advances in judicial and legal reforms were countered by irregularities in the September 1996 presidential election, the results of which were questioned by international observers. Although down in numbers compared to previous years, reports of harassment and intimidation of journalists and editors continued. The government signed an agreement with the ICRC in January on general and private access to all persons detained by the ministries of internal security and national security. However, the government's cooperation in implementing this agreement was uneven. Police brutality goes largely unreported and without redress. Observers note that defendants are often beaten to extract confessions and are denied visits from relatives, physicians and lawyers. Public demonstrations usually take place without government interference, although they were proscribed for a month following the outbreak of violence at a post-election opposition rally on September 25. A previously suspended party, the Armenian Revolutionary Federation (ARF/Dashnaks) was not reinstated, although the authorities allowed its gatherings, news conferences and activities. Other opposition party offices were closed and ransacked following the 25 September violence, but were all eventually reopened. Freedom of religion is not adequately protected under existing law. Non-apostolic churches must register with the Government and proselytizing is forbidden by law. Harassment of non-apostolic churches and religious groups which took place in April 1995 did not recur in 1996. Armenia's ethnic Azeri population, deported in 1988-89, remain refugees, mostly in Azerbaijan. Armenia's record on discrimination towards the few remaining national minorities is generally good. The Government does not restrict internal or international travel.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Armenia's observance of international law and obligations as well as OSCE commitments in this respect has been marred by the ongoing conflict over Nagorno-Karabakh. Karabakhi Armenians, supported by the Republic of Armenia, now hold about one-fifth of Azerbaijan and have refused to withdraw from occupied territories until an agreement on the status and security of Nagorno-Karabakh is reached. President Ter-Petrosian, who rose to prominence and power on the issue of Nagorno-Karabakh's status, has refused to recognize the self-proclaimed

independence of the "Nagorno-Karabakh Republic." He has, however, acknowledged allowing Armenian "volunteers" to fight for the Karabakh army. Some human rights organizations have accused Armenia of sending regular troops to fight in Nagorno-Karabakh. Both sides have committed violations of international humanitarian laws. The Armenian Government in May released 11 Azerbaijani detainees held in connection with the conflict; the Nagorno-Karabakh authorities released 59.

Armenia continues to observe the ceasefire which has been in effect since May, 1994 and meets regularly, either bilaterally with Azerbaijan or within the OSCE's Minsk Group, in an effort to resolve the conflict

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The OSCE created the Minsk Group in Spring 1992 as the forum for a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. Armenia participates fully in the OSCE peace process. Additionally, the Armenian and Azerbaijani governments have been engaged in a direct dialogue to facilitate the international peace process. The negotiations, however, remain deadlocked.

Section 498A(a)(6): "implement responsible security policies, including:

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers."

The CFE Treaty was ratified by the Armenian Parliament in July 1992. Armenia has provided data on armaments as required by the CFE Treaty, and has hosted on-site inspection teams to verify its reports. Nevertheless, to date, Armenia's fulfillment of its CFE obligations has been uneven. Based upon its declared receipt of Treaty-limited equipment (TLE) from the Soviet Union, Armenia has improperly notified a reduction liability of zero, when the proper liability should be 159 armored combat vehicles (ACVs). Although it has notified an improper reduction liability, Armenia did conduct one notified reduction event for 18 ACVs. In addition, Armenia has claimed combat losses on its border with Azerbaijan of 76 ACVs and notified the transfer of another 67 ACVs from its conventional armed forces to internal security forces. However, neither battle losses nor transfers to internal security forces are recognized in the Treaty as a legitimate means to meet a reduction liability. In addition to the reduction concerns, the Armenian data submissions as of 17 November 1995 and 1 January 1996 show Armenian holdings in armored infantry combat vehicles to exceed its declared limits by 33. At the CFE Review Conference in May 1996, Armenia signed the CFE Flank Agreement and committed to be in compliance with all limitations not later than May 31, 1999. We are also concerned by reports of Armenian support for the transfer of former Soviet TLE to separatist forces in Nagorno-Karabakh. At the December Lisbon summit, Armenia agreed to a three step process to address this issue.

Armenia acceded to the NPT as a non-nuclear weapon state on July 15, 1993. The U.S. and other Western governments have discussed efforts to establish effective export control systems with Armenia. On January 27, 1995, Armenia ratified the multilateral Chemical Weapons Convention, which calls for the global elimination of chemical weapons.

We have received occasional reports of transfers potentially related to proliferation of weapons of mass destruction through Armenia which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports has resulted in a sanctions determination during the reporting period.

Armenia is not a significant exporter of conventional weapons, but it has provided substantial support, including materiel, to separatists in the Nagorno-Karabakh region of Azerbaijan.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Armenia faces serious environmental problems. Water pollution caused by industrial wastes discharged into rivers has contributed to a serious decline in public health. Armenia's major freshwater source, Lake Sevan, has a

declining water level due to hydroelectric generation. Overuse of the country's forests and poor irrigation and water management practices have led to increased soil erosion and loss of arable land. The Government of Armenia, however, has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a Ministry of Environment. Environment action plans are being developed with the assistance of the World Bank. National environmental NGOs are gaining access to the policy-making process on environmental issues. Armenia has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information-sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues.

Section 498A(a)(8): “deny support for acts of international terrorism.”

The Government of Armenia does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In September 1993, Armenia signed an agreement with Russia transferring Armenia's share of the former Soviet Union's debt to Russia in exchange for its share of FSU assets. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POW's and MIA's in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POW's/MIA's which was established in January 1992. The Commission sent a delegation to Armenia in August 1993 to expand contacts with Armenian officials and to visit the crash site of a C-130 which was shot down over Armenia in 1958. The delegation received much support from the people and officials of Armenia, who cooperated during the investigation.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Armenia is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

ARMENIA

Section 498A(b)(1): Has the President determined that the Government of Armenia has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. While there have been some serious shortcomings in human rights observance (as discussed above), we do not believe that the Government of Armenia is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Armenia “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. We do not believe that the Government of Armenia has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Armenia “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

We periodically receive reports of potential weapons of mass destruction proliferation-related transfers which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports has resulted in a sanctions determination during the reporting period.

Section 498A(b)(4): Is the Government of Armenia “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Armenia is prohibited from receiving assistance under these statutes.

Section 498A(b) (5): Has the President determined and certified within 30 days to the appropriate congressional committees that the Government of Armenia "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Armenia under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

Armenia is not providing assistance for, or engaging in nonmarket based trade with, the Cuban government.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

AZERBAIJAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

The president’s party dominates the government and the multi-party, 125-member parliament chosen in November 1995 elections. An independent media exists, but so do censorship and periodic government interference in the publication of newspapers. The government tolerates the existence of many opposition political parties, although it continues to refuse to register some of them. The government arrested 25 members of the opposition Azerbaijan Popular Front Party and 9 members of the Islamic Party. A member of the Islamic Party died after being beaten while in prison.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

The conflict in Nagorno-Karabakh has had a negative impact on the economy and diverted the government’s attention away from economic reform. However, the government has taken some positive steps toward reform. Azerbaijan has made significant progress on structural economic reform, including strict monetary and budgetary policies enacted in 1995, the restrictive budget passed by the parliament in 1996, and the elimination of consumer subsidies on gasoline and bread. Azerbaijan has also taken some initial steps toward privatization, focused on small enterprises. The sale of larger enterprises is expected to take place in 1997. In addition, the parliament passed a land law in mid-1996 allowing private ownership of land.

Azerbaijan has joined the IMF, EBRD, and IBRD, and concluded an OPIC agreement and bilateral trade agreement with the United States. Azerbaijan has MFN status.

IMF approved a \$46 million Systemic Transformation Facility loan in April 1995 and followed with a \$92 million one-year Standby Agreement (SBA) in November 1995 to consolidate stabilization and accelerate structural reforms. IMF staff have begun discussions with the Government of Azerbaijan on a prospective medium-term economic program that would strengthen the government’s commitment to structural reform.

Section 498A(a)(3): “respect for internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

The conflict over Nagorno-Karabakh continued to be the most significant factor in the human rights situation in Azerbaijan. The expansion of ethnic Armenian separatists into Azeri-populated regions in Azerbaijan in 1993 created hundreds of thousands of additional Azerbaijani internally-displaced persons.

While believers of other faiths practice their religions without restrictions or sanctions, Armenian churches in Azerbaijan remain closed. The parliament passed a law in June that prohibits religious proselytizing by foreigners. The government also denied registration to a foreign Christian group, but has allowed it to continue to function.

The remaining Armenian population in Azerbaijan is approximately 10-20,000, mostly people of mixed descent or involved in mixed marriages. There is no government policy of discrimination against Armenians, who are free to

travel. There are strong anti-Armenian feelings among the general population. In addition, low-level officials seeking bribes often harass members of minorities wishing to emigrate.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

The Government of Azerbaijan has reiterated its commitment to the observance of international legal obligations and OSCE commitments in the area of human rights. It has also reiterated its commitment to seek a peaceful resolution of the Nagorno-Karabakh conflict. At the same time, the conflict in Nagorno-Karabakh continues and both sides have committed violations of international humanitarian laws. The parties to the conflict continue to observe a ceasefire which has been in effect since May, 1994. The direct dialogue continues between the Armenian and Azerbaijani governments, and both are participants in the OSCE Minsk Group effort to resolve the Nagorno-Karabakh conflict.

As in they did in 1995, the parties to the Nagorno-Karabakh conflict marked the anniversary of the cease-fire (began in May 1994) by releasing detainees being held in connection with the conflict. A total of 109 persons were released in 1996: 39 by Azerbaijan, 11 by Armenia, and 59 by authorities in Nagorno-Karabakh. There are others that have been detained since that time. The ICRC continues its efforts to visit and obtain the release of those held in connection with the conflict.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

The OSCE created the Minsk Group in Spring 1992 as the forum for a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. Azerbaijan participates fully in the OSCE peace process. In addition, the Azerbaijani and Armenian governments have been engaged in a direct dialogue to facilitate the international peace process. The negotiations, however, remain deadlocked.

Section 498A(a)(6): “implement responsible security policies, including:

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union; (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements; (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”

Azerbaijan has formally declared its willingness and intent to adhere to all relevant arms control obligations of the former Soviet Union. Azerbaijan ratified the CFE Treaty in July 1992 and provided data on its conventional armed forces as required by the Treaty by the December 1993 deadline. Every annual Azerbaijani data submission has shown holdings of equipment of a type limited by the CFE Treaty well above Azerbaijan’s maximum levels. Azerbaijan has not, however, taken steps to meet its reduction liability, indicating it will only do so upon resolution of the Nagorno-Karabakh conflict. Azerbaijan has accepted CFE on-site inspections of forces on its territory.

We do not believe that Azerbaijan has engaged in the proliferation of nuclear, chemical, or biological weapons, their delivery systems, or related technology. Azerbaijan is a signatory to the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction. Azerbaijan is not a significant exporter of conventional weapons.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

Oil development, air and water pollution, and urban/industrial pressure on the land have created serious challenges. River systems, including the Volga, as well as the Black Sea, suffer from severe chemical pollution resulting in loss of fish species. Deterioration and erosion of soil and salination of agricultural lands contribute to extensive soil loss, as does the heavy use of fertilizers and pesticides.

Poor air and water quality contribute to increasing public health risks. The rising level of the Caspian Sea and the prospective development of the Caspian for oil and other resources will bring new, serious environmental challenges.

Response to the problems of the environment has been slower in Azerbaijan than elsewhere in the FSU. However, new laws passed to address environmental problems and use of natural resources are based on laws in effect in the west. Funding is problematical and inadequate to meet the breadth of problems that exist. The National Environment Committee seeks to use the schools, information organizations, and the media to educate the populace. Green organizations and a Green party push environmental issues. Efforts to overcome the environmental obstacles in Azerbaijan will benefit from resolution of the conflict and the resultant redirection of resources to the task.

Section 498A(a)(8): “deny support for acts of international terrorism.”

The Government of Azerbaijan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs which was established in January 1992. The Commission met with Azerbaijani officials in June 1996 and the Azerbaijani government pledged its cooperation with the commission's efforts.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Azerbaijan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

AZERBAIJAN

Section 498A(b)(1): Has the President determined that the Government of Azerbaijan has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. While there have been serious shortcomings in human rights observance (as discussed above), we do not believe that the Government of Azerbaijan is engaged in a pattern of gross violations.

Section 498A(b)(2): Has the President determined that the Government of Azerbaijan “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. We do not believe that the Government of Azerbaijan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Azerbaijan “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of Azerbaijan has made such transfers.

Section 498A(b)(4): Is the Government of Azerbaijan “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Azerbaijan is prohibited from receiving assistance under these statutes.

Section 498A (b) (5): Has the President determined and certified to the appropriate congressional committees that the Government of Azerbaijan “is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Azerbaijan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?”

Azerbaijan is not providing assistance for, or engaging in nonmarket based trade with, the Cuban government.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

BELARUS

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

A series of troubling developments in Belarus during 1996 made worldwide headlines, and the country’s observation of internationally recognized human rights worsened markedly over the year. Since his election as the first President in July 1994, Aleksandr Lukashenko has steadily amassed power in the executive branch, and government restrictions on freedom of speech and the press, peaceful assembly, religions and movement all increased. In November 1996, Lukashenko engineered a referendum to adopt a new constitution. The United States declared that the entire process involving adoption of the new constitution was devoid of legitimacy. The new constitution gives Lukashenko control over the legislative and judiciary branches of government, in addition to the executive branch. Because the referendum was an illegal method of amending the prior Constitution, the Parliament and Constitutional Court actively opposed it. But as Lukashenko controls the news media, the views of the opposition did not become widely known, and Lukashenko laid claim to a 70 percent margin of victory for his new constitution. His term is now extended to 2002 and he is a cabinet member for life. Although a political opposition continues to exist, it is deeply demoralized and weakened. Special government troops on occasion have used force against opposition members of parliament, opposition political gatherings, and union activities.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

In 1996, the Government of Belarus continued to backtrack on implementing the economic reforms contained in the IMF stand-by arrangement approved in September 1995. As a result of the Belarusian Government’s return to more administrative intervention and state controls, especially in areas such as exchange rate and monetary policies, no IMF credits were disbursed in 1996 to Belarus. In addition, the balance of payments in Belarus continues to worsen, and little progress is being made on structural reforms such as privatization.

Due to the Belarusian Government’s unwillingness to alter its policy stance, the IMF has postponed a mission to Minsk, scheduled for early 1997. This mission was designed to impress upon GOB authorities the importance of implementing the IMF stand-by program and restoring external confidence in Belarus’ reform efforts.

Although Belarus is a member of the World Bank (IBRD, IFC and MIGA) and the EBRD, lending activity by these institutions has been modest. Based on the Belarusian Government’s relative lack of commitment to reform and deteriorating conditions in 1996, lending activity virtually ground to a halt.

An OPIC agreement entered into force in 1992. In late 1996 OPIC was reviewing a claim involving Alliant Tech and its joint venture partner, Belconvers, that could become its first expropriation case in the NIS. If it is concluded that the government of Belarus expropriated assets without compensation, this case will be a severe discouragement to foreign investors. A trade agreement between Belarus and the United States which extends reciprocal MFN status and contains IPR (Intellectual Property Right) provisions entered into force in February 1993. A bilateral investment treaty has been negotiated, was ratified by the Belarusian Parliament in October 1995, and the U.S. Senate gave its advice and consent in June 1996. But as the political situation declined in late 1996, the Department decided not to bring the treaty into force at that time to avoid sending a signal that could be misinterpreted.

Section 498A(a)(3): “respect for internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

The government’s respect for internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration, worsened markedly in 1996. (See Section 498A(a)(1)).

However, it must be said that ethnic tensions have not been a problem in Belarus, and persons of all faiths may now generally worship without fear of persecution. Nevertheless, the activity of foreign religious workers is sharply limited by a 1995 Cabinet of Ministers Directive. The situation of the Jewish community also requires the special attention of the U.S. Government. No law has been passed in Belarus providing for a procedure to be followed for restitution of communal property confiscated or stolen by the Nazis and their sympathizers, or by the Communist government. The courts offer an alternate route, but the time and expense involved in prosecuting a restitution claim limits their effectiveness in this area. Despite the difficulties, several local Jewish communities have successfully reclaimed their synagogues, while others remained stymied in their efforts.

The rights of persons belonging to minority groups appeared to be respected in Belarus. In 1995 Parliament passed a law on Immigration and Migration which provides numerical limits on new citizens, but failed to budget funds for its implementation. The right to choose one’s place of residence, although guaranteed by law, remains restricted in practice. In addition, emigration procedures have been relaxed considerably, and the government states that no citizen was denied permission to emigrate in 1996. In August 1996, the U.S. Immigration and Naturalization Service granted political asylum to two Belarusian opposition leaders, Zenon Paznyak and Sergei Navumchik. The government maintains a virtual monopoly over the press, and since late 1995, it has restricted the ability of certain publications to appear, forcing them to seek such alternatives as publishing across the border.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

Belarus has demonstrated its respect for international law and obligations through its participation in the OSCE. During the Dec. 2, 1996 OSCE summit meeting, many world leaders, including Vice President Gore, made presentations calling President Lukashenko to task for the human rights violations in his country. Except for a few incidents of violence by government authorities during mass demonstrations in the spring and summer of 1996, the government has upheld its obligations to refrain from the threat or use of force, and has endeavored to settle disputes peacefully.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

Belarus is not involved in ethnic or regional conflicts and has supported the CIS and OSCE as conflict-resolving mechanisms. Belarus is only a conditional member of the CIS Collective Security agreement; no foreign troops may be deployed to Belarus, nor may Belarusian troops be sent abroad, without the explicit approval of the legislature.

Section 498A(a)(6): “implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”**

Belarus has formally declared its acceptance of all relevant arms control obligations of the former Soviet Union. It has ratified the START I Treaty. In October 1995, Belarus resumed destruction of weapons mandated by the CFE Treaty and by August 1996, it brought its Treaty-limited equipment (TLE) holdings into compliance with its TLE limits. Belarus will conclude a full-scope safeguards agreement with the IAEA. Belarus participates in discussions on implementing the INF and START treaties as a successor state to the Soviet Union. All former Soviet tactical

nuclear weapons were removed from Belarus by May 1992, two months ahead of the announced deadline. Also in May 1992, Belarus signed a letter accompanying the Lisbon Protocol to START promising to eliminate all strategic offensive arms located in Belarus. On November 27, 1996, the final nuclear missiles and warheads were transferred from Belarus to Russia, well ahead of the seven-year START reduction period. Belarus has been a participant in the Standing Consultative Commission in discussion and negotiation on ABM Treaty succession as well as demarcation on distinguishing between the ABM systems that are limited by the Treaty and other ballistic missile systems that are not.

On Sept. 24, 1996, Belarus signed the Comprehensive Nuclear Test-Ban Treaty at the UN General Assembly.

The government's official policy is to reduce its armed forces by more than half, and to be a neutral, non-nuclear-weapon state. Belarus was the first of the NIS to sign agreements with the U.S. under the Nunn-Lugar program, providing assistance in the areas of export control, defense conversion, environmental restoration, and the establishment of a continuous communications link with the U.S. NRRC. We do not believe that Belarus has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. However, Belarusian entities have been selling truck chassis (items not on any international control list) that proliferators convert into mobile missile launchers.

Belarus has ratified the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction and is a state party to the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction. Belarus has engaged in limited commercial conventional weapons transactions. It seeks to convert its defense industry to civilian production but lacks the funds to do so quickly.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

Belarus has taken positive steps to address international environmental issues by establishing ministries of energy, forestry and water resources, and land reclamation. It has also established state committees on consequences of the Chernobyl accident, ecology, and supervision of safety procedures in industry and the nuclear power industry. Belarus suffered the brunt of the effects of Chernobyl and has actively sought U.S. assistance in cleaning up areas contaminated by radiation.

Air and water pollution problems of varying degrees of seriousness plague Belarus. Rivers are considered "moderately polluted" from industrial and agricultural sources. Some land reclamation efforts, undertaken in the name of economic development, have contributed to severe ecological problems in the Polesye region. Environmental protection efforts undertaken by individual ministries are supervised by the Committee of the Council of Ministers on Emergency Situations, the Consequences of the Chernobyl Disaster, and the Environment.

There are several non-governmental organizations (NGOs) and more than 20 foundations and citizens organizations that focus on the Chernobyl aftermath. Belarus possesses the human and natural resources to gradually address the environmental challenges facing the country. With sufficient political will and stability, the chances for progress in the environmental field will be improved.

Section 498A(a)(8): “deny support for acts of international terrorism.”

The Government of Belarus does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics, including Belarus,

signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. The December 1991 agreement provided that Belarus's share of the FSU debt would be 4.13 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In July 1992, Belarus signed a "zero option" agreement with Russia under which Russia will pay Belarus's share of the debt in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs, established in January 1992. The Joint Commission sponsored several trips to Belarus in 1996 and considers its work with the Government of Belarus a model of cooperation.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Belarus is not providing military, economic, nuclear, or other assistance to the Government of Cuba, and given all information at hand, all trade is believed to take place on market terms.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

BELARUS

Section 498A(b)(1): Has the President determined that the Government of Belarus has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. While there have been serious shortcomings in human rights observance (as discussed above), we do not believe that the Government of Belarus is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Belarus “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. We do not believe that the Government of Belarus has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Belarus “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of Belarus has made such transfers.

Section 498A(b)(4): Is the Government of Belarus “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Belarus is prohibited from receiving assistance by these statutes.

Section 498A (b) (5): Has the President determined and certified to the appropriate congressional committees that the Government of Belarus "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Belarus under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

No. We do not have information from which to conclude that the Government of Belarus is prohibited from receiving assistance by these statutes.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

GEORGIA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

The Georgian parliament adopted a new constitution in September, 1995. Presidential and parliamentary elections were held on November 5, 1995 in all areas except those under the control of Abkhazian and South Ossetian separatist forces who refused to support the process. The central government has stated that representatives from these districts will be elected immediately following resolution of these regional conflicts. International observers stated that, except for problems in the autonomous region of Ajaria, the elections were conducted in a manner consistent with democratic norms.

The government has stated that it intends to hold local elections in 1997, though it has not determined which officials will be elected and which will continue to be appointed by the central government.

The parliament elected in November 1995 has passed significant legislation instituting legal, institutional and procedural reforms supportive of rule of law, individual freedoms and representative government.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

Following several years of disastrous performance resulting from civil war, trade disruptions and weak monetary and fiscal policies, Georgia’s economic policies and performance has improved significantly during the past year. Accomplishments include a significant reduction in the inflation rate, successful transition to a stable, national currency, elimination of most price and enterprise subsidies, liberalization of domestic and external trade, reduction in public employment, new banking, bankruptcy, and investment laws, and accelerated privatization. After providing short-term credits to Georgia in 1994-95, the IMF, in February 1996, approved a three-year loan for \$246 million under the enhanced structural adjustment facility (ESAF) to support economic and structural reforms. Real GDP growth for Georgia in 1996 and 1997 is expected to exceed 10 percent.

Further structural, legal and organizational reforms are needed in order to attract foreign and domestic investment. Remaining state monopolies, particularly in the energy and communications sectors, should be ended, and further progress on land reform and privatization will be required for Georgia to realize its growth potential. Additional IMF lending (on a concessional basis) is being considered to support continued reform.

Georgia is a member of the IMF and World Bank. The bilateral trade agreement with the U.S., which provides mutual MFN treatment and contains intellectual property rights provisions, came into force in August 1993, and a bilateral investment treaty, which was ratified by both the United States and Georgia in 1996. An OPIC agreement has been in force since 1992, and Georgia has submitted a letter to the USTR requesting status under GSP. The Georgian government is working towards membership in the WTO.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

The government's human rights record improved somewhat over the past year. Guided by the 1995 constitution which includes significant commitments to human rights principles, the parliament acted to restructure the state human rights protection body to strengthen ombudsman functions and passed legislation designed to strengthen the court system. There has been some progress in the area of allowing international monitors access to prisons and detainees, but local officials continue to impose restrictions on a case by case basis. Freedom of religion is unrestricted, as is the freedom for foreign and internal travel and emigration. While there has been improvement, some limitations on the press remain.

Despite government commitments to address these problems, abuse of detainees and prisoners by security and prison officials, extremely harsh prison conditions, judicial corruption, denial of fair and expeditious trial, and arbitrary interference with privacy and home continue.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

While progress has been made toward the observance of international legal obligations and OSCE commitments in the area of human rights, the status of Abkhazia and South Ossetia, two separatist regions within Georgian territory, remains unresolved. The U.S. continues to work bilaterally and with the UN, the OSCE and other nations organized as the Friends of Georgia (FOG) to encourage all parties to pursue a peaceful resolution of the conflict in a manner that safeguards both the territorial integrity of Georgia and the rights of individuals belonging to ethnic minorities.

Unfortunately, sporadic violence continues, particularly in the separatist region of Abkhazia. This includes use of mines against civilians, Russian peacekeepers and UN observers. Both Abkhaz separatists and ethnic Georgian partisans supportive of the central government are credibly reported to be involved in these incidents.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

President Shevardnadze has consistently stressed Georgia's commitment to negotiate a peaceful settlement to the conflict in Abkhazia. He has pledged to continue this approach despite Abkhazia's unilateral declaration of independence in November of 1994 and subsequent demand that any settlement grant the region equal status with the government in Tbilisi. Negotiations under the auspices of the UN and facilitated by Russia continue. Since 1992, an OSCE mission has been working in Georgia to facilitate a political settlement of the South Ossetia dispute. The Georgian government has fully supported the mandate of the OSCE mission, which includes developing democratic institutions and encouraging respect for human rights throughout Georgia.

The Georgian government and representatives of the Abkhaz separatist regime have agreed to the establishment of a human rights office, supported by the UN and the OSCE, in Sukhumi, the capital of Abkhazia. The office will be used to monitor the human rights situation in the region and to encourage practices consistent with international human rights standards.

Section 498A(a)(6): “implement responsible security policies, including:

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”

Georgia has consistently made clear its commitment to achieving full implementation of the CFE Treaty, of which President Shevardnadze (as Soviet Foreign Minister) was a major architect. Georgia is in full compliance under CFE and has accepted CFE inspections of forces on its territory.

A twenty-five-year bilateral basing agreement which would allow Russia to maintain bases and military equipment on Georgian territory was initialed by the two parties in 1995, but has not yet been ratified by either the Russian or the Georgian parliament. While Russia has provided some military assistance, the Georgian military remains ill-

equipped. Russian border forces currently control Georgia's border with Turkey and the border facilities at Georgia's Black Sea ports of Batumi and Poti. The government of Georgia has established as a priority the development of the indigenous ability to control its borders.

We do not believe that Georgia has engaged in significant transfers of conventional weapons, or in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Georgia acceded to the Nuclear Non-Proliferation Treaty as a non-nuclear weapon state on March 7, 1994. The U.S. and other Western governments have discussed with Georgia cooperative efforts to establish effective export control systems. Georgia has indicated its intention, as a successor to the former Soviet Union, to become a party to the ABM Treaty. Georgia has ratified the multilateral Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Georgia faces an array of environmental problems ranging from air and water pollution and deterioration of soils as a result of agricultural methods used under the Soviet regime. Deforestation is also a serious problem due to a continuing shortage of energy from conventional sources.

The Government of Georgia has taken some steps to put in place public policy mechanisms to address environmental issues, including establishment of a Ministry of Environment. National environmental NGOs are gaining access to the policy-making process on environmental issues, and key parliamentary leaders, including the Chairman, are former leaders of the Green Party. Georgia has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Georgia does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism. President Shevardnadze has stated publicly his support for stronger international measures to combat international and domestic terrorism, including that by separatist forces.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the assets and foreign debt of the former Soviet Union. Georgia signed both the October and December 1991 agreements. The December 1991 agreement provided that Georgia's share of the FSU debt would be 1.62 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. Georgia has signed an agreement with Russia transferring Georgia's share of the FSU debt to Russia in exchange for its share of FSU assets (the so-called "zero option").

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs which was established in January 1992. The

Commission visited Georgia in May 1996 and met with President Shevardnadze and other officials who promised cooperation.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Georgia is not providing military and intelligence, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

GEORGIA

Section 498A(b)(1): Has the President determined that the Government of Georgia has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No such pattern exists. Respect for human rights is declared policy and, in practice, most human rights are generally respected. There are continuing serious shortcomings, however, in regard to treatment of some detainees and prisoners by some police and prison officials. The government has prosecuted some officials responsible for such abuses, and the parliament is addressing the need for law enforcement reform.

Section 498A(b)(2): Has the President determined that the Government of Georgia “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. While there were minor flaws in its implementation record in the first years after independence, Georgia has been a constructive and responsible participant in arms control undertakings.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Georgia “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of Georgia has made such transfers.

Section 498A(b)(4): Is the Government of Georgia “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Georgia is prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Georgia “is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Georgia under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?”

The Government of Georgia does not provide assistance for or engage in nonmarket based trade with the Cuban government.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

KAZAKSTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

In 1996, Kazakhstan has in place some important elements of participatory democracy. Abuses of human rights are limited and citizens enjoy basic rights of freedom, religion and speech. Although security forces sometimes spy on and harass the opposition, abuses of human rights are generally limited and, in the main, the government respects freedom of speech and the press; there are several opposition parties, and the media frequently disseminate critical views. The government practices some affirmative action in favor of ethnic Kazaks, which is resented by the large ethnic Russian minority.

President Nazarbayev dominates the political landscape; the other potential power centers are weak or in disarray. The parliament, elected in late 1995 in reasonably free and fair elections, is an institution struggling to find its way. The 1995 referendum which approved a new Constitution -- pushed through by Nazarbayev -- significantly strengthened the executive at the expense of the legislative and judicial branches. While the parliament has not been the rubber stamp some thought it would be -- it took on the President over pension reform, for example, before backing down in the face of the threat of dissolution -- its performance can be described as, at best, tentative and reactive. The court system is under the control of the executive branch and government pressure and sometimes interferes with its independence. The political opposition exists more in name than reality, although labor and opposition groups have staged some sizable demonstrations this year. Politicians opposed to the Nazarbayev government did regroup in 1996, attempting to reconfigure themselves into viable alternatives.

In short, while President Nazarbayev continues to assert his commitment to democracy, Kazakhstan today is something less than a modern democracy, but something more than a repressive, authoritarian state.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

Kazakhstan's economic reform program remains on track. During 1995 and the first quarter of 1996, the Government of Kazakhstan continued to reduce inflation and some progress was made on reversing the chronic decline in tax revenue. The tenge exchange rate is stable. While structural reforms have lagged, the Government of Kazakhstan has pledged renewed commitment in this area and, in July 1996, Kazakhstan earned a three-year Extended Financing Facility from the IMF. The Government of Kazakhstan also received a Standard and Poor's international credit rating, only the second NIS after Russia. The Government of Kazakhstan began to take the steps necessary to address key legal and regulatory reform issues. Recent reforms have been proposed in the Foreign Investment Law, the Law on Petroleum, and the Law on Subsurface Utilization which would clarify and strengthen the rights of foreign investors. The Government has also developed an ambitious legal reform agenda for developing the regulatory framework required to clarify property ownership and transfer rights and the rights of parties to economic transactions. The Government of Kazakhstan continues to move forward aggressively in its efforts to become a member of the WTO, and Kazakhstan's Memorandum of Foreign Trade Regime (the core negotiating document for WTO accession) was submitted this past summer.

Reforms need to be accelerated in a number of key structural areas. The first is privatization and enterprise restructuring; the World Bank case-by-case program remains limited in application, and it is not clear that the management companies being used to effect privatization in certain sectors are really up to the job. Until privatization and restructuring deepen, the positive progress already made by Kazakhstan in the financial sector will not be reflected in the real economy. Kazakhstan's ability to attract foreign and domestic sources of capital is hampered to a degree by the general business environment there. Efforts to attract increased foreign investment will not fully succeed until the web of bureaucratic obstacles which confront both foreign and domestic investors are removed. Kazakhstan's improved performance, however, is reflected by its first launch on the Eurobond market. Kazakhstan is on the right track but will require implementation of concrete measures in such areas as improved customs processing, transparency in the tendering process, streamlined registration of businesses, and correcting distorted VAT and customs duties.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

Freedom of assembly and religion are generally respected. The press is pluralistic, with a large number of non-official publications, although it practices some self-censorship in the face of occasional government harassment. While ethnic Slavs and other minorities are concerned about increasing state-sanctioned preferences in favor of ethnic Kazaks, President Nazarbayev has publicly emphasized that all nationalities are welcome and entitled to equal treatment under the law. The constitution includes substantial protections for individuals, including members of non-Kazak ethnic groups. The Committee for National Security (KNB) has legal authority to deny permission to travel in and out of the country but emigration is not hindered.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

The Government of Kazakhstan has made a strong commitment to respect the observance of international legal obligations and OSCE commitments. Kazakhstan is at peace with its neighbors and has defensive military forces which do not pose an offensive threat to the region. Kazakhstan is also a strong proponent of dialogue and cooperation among the states of the former Soviet Union. Kazakhstan is a member of the Partnership for Peace.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

Kazakhstan supports regional and international efforts to resolve peacefully the conflicts in Tajikistan and Afghanistan. Kazakhstan is committed to establishing a multi-ethnic national identity and is sensitive to the concerns of the large ethnic Russian community in Kazakhstan.

Section 498A(a)(6): “implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”**

Kazakhstan was the second NIS with nuclear weapons on its soil at the time of independence to accede to the NPT as a non-nuclear weapon state, doing so in February 1994. All nuclear weapons were removed from its territory by the end of April 1995. Almaty has also ratified the CFE and START treaties and is a full successor and participant in the INF and START Treaties. ABM Treaty succession has not yet been archived, but Kazakhstan has been an active participant in the process and is a likely successor State. Kazakhstan is also committed to maintaining a military force consistent with legitimate defense requirements. We do not believe that Kazakhstan has engaged in significant transfers of conventional weapons, or in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. We carefully monitor Kazakstani Government contacts with India and Pakistan and reiterate our concerns over the dangers of sharing of nuclear technology with those nations. Kazakhstan is an original signatory to the multilateral Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons. The Government of Kazakhstan attended the Fifth Biological Weapons

Convention review conference as an observer, and is actively reviewing whether to accede to the treaty. Kazakhstan signed a full-scope IAEA safeguards agreement in July 1994. Kazakhstan's November 1994 transfer to the U.S. of approximately 600 kilograms of weapons-grade uranium compellingly demonstrated Almaty's willingness to work closely with the U.S. to advance global peace and stability. We continue to work closely with the Kazakstanis in the dismantlement of weapons facilities at Semipalatinsk, the closing of test tunnels at Degelen, and the destruction of delivery systems, such as Soviet-era bombers.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Kazakhstan suffered severe environmental degradation under Soviet rule, and there is broad-based support for domestic protection of the environment. Kazakhstan has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues. Kazakhstan has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a Ministry of Environment and the introduction, at least on an experimental basis, of a pollution fee system by which taxes are levied on air and water emissions and solid waste disposal, with the resulting revenues channeled to environmental protection activities. National environmental NGOs are gaining access to the policy-making process on environmental issues.

Kazakhstan has been an active and constructive player in regional and international efforts addressed to alleviate the deteriorating environmental conditions and foster regional cooperation in the Aral Sea basin. Kazakhstan President Nazarbayev is also President of the International Fund for Saving the Aral Sea. Kazakhstan has worked with the World Bank and international donors on a 15- to 20- year plan to stabilize the Aral Sea. Kazakhstan remains engaged in talks with Russia, Turkmenistan, Azerbaijan and Iran on environmental protection of the Caspian Sea. These marine environmental protection talks will include discussion of development of the mineral resources of the Caspian seabed and use of the sturgeon population in a way that protects the Caspian ecosystem

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Kazakhstan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Kazakhstan signed both the October and December 1991 agreements. The December 1991 agreement provided that Kazakhstan's share of the FSU debt would be 3.86 percent. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In September 1993, Kazakhstan signed a "zero option" agreement with Russia under which Russia will pay Kazakhstan's share of the debt in return for its share of the assets. The April 1996 Paris Club arrangement states that Russia had informed the participating creditor countries that "zero option" agreements had been signed by Russia and each other NIS; the creditors "took note" that copies of these agreements had been provided.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs which was established in January 1992. The Government of Kazakstan has been cooperative with all related interviews conducted in Kazakstan.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Kazakstan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

KAZAKSTAN

Section 498A(b)(1): Has the President determined that the Government of Kazakstan has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. Although the human rights record in Kazakstan is imperfect (as discussed above), we do not believe that the Government of Kazakstan is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Kazakstan “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. The Government of Kazakstan has taken a significant number of such constructive actions (as discussed above), including ratification of START I. Kazakstan deposited its instrument of accession to the NPT in 1994.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Kazakstan “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of Kazakstan has made such transfers.

Section 498A(b)(4): Is the Government of Kazakstan “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Kazakstan is prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the government of Kazakstan "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Kazakstan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30 day period?"

The U.S. Government is unaware of any assistance or nonmarket based trade between the governments of Kazakstan and Cuba.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

KYRGYZSTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

President Akayev and his ministers have expressed strong commitments to human rights, democracy and the rule of law. Since gaining independence, Kyrgyzstan has made important progress, with occasional setbacks, in these areas. In September 1995, Kyrgyzstan rejected a referendum to extend President Akayev’s term of office, choosing instead an open presidential election on December 24 of that year. Although there were numerous complaints about opposition candidates’ difficulty in the registration process, and three candidates were deregistered by the Constitutional Court, international observers characterized the election as free and generally representing the will of the people of Kyrgyzstan. Multi party parliamentary elections held in early 1995 featured widespread irregularities, but international observers also concluded that the results generally represented the will of the Kyrgyzstani people. A February 1996 referendum of dubious constitutionality significantly increased the power of the executive branch, primarily at the expense of the legislature.

Convictions in 1995 and 1996 of several journalists and opposition campaign workers for defaming President Akayev raised concerns about the government’s commitment to free speech, although all those convicted were subsequently released. In the fall of 1996, the Constitutional Court ruled that the election procedure of the speaker of the lower house of Parliament was unconstitutional, an event which may represent a strengthening of the judiciary’s role in government. There are numerous independent newspapers and magazines which are often critical of the government.

The Kyrgyz Republic’s constitution gives substantial guarantees of rights for its citizens, including members of non-Kyrgyz ethnic groups. Nevertheless, discrimination by ethnic Kyrgyz government officials against non-Kyrgyz citizens has remained a complaint of the ethnic Russian and Uzbek populations despite efforts by President Akayev to mitigate the effects of Kyrgyz nationalism and constitutional guarantees. The Government of the Kyrgyz Republic supports efforts to cultivate political activity by its citizens, and opposition groups are with rare exceptions free to organize and conduct political activities.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

The Kyrgyz Republic has made significant progress in restructuring its economic system and implementing legislation that will be the basis for a market economy. The Kyrgyz Republic introduced its own national currency, the som, in May 1993, which has given the Government greater control over its monetary policy. The parliament adopted favorable laws on privatization, joint ventures, foreign trade and investment and free economic zones. A trade agreement with the United States provides reciprocal MFN status and contains IPR (intellectual property right) provisions. An OPIC agreement is also in force. A bilateral investment treaty with the United States became effective in January 1994. A bilateral tax treaty has been discussed, though negotiations have not begun. The Kyrgyz Republic is a member of the EBRD, IBRD, ADB and IMF. In August 1996 Kyrgyzstan submitted its Foreign Trade Memorandum in support of its application for accession to the WTO.

As the first of the NIS to embark on IMF-backed reform programs, the Kyrgyzstani Government’s commitment to reform started early and has deepened. The IMF is providing in 1996 \$48 million in support of the government’s

economic and structural reform program as Kyrgyzstan begins the second year of its three year enhanced structural adjustment facility (ESAF). The economic reform efforts of Kyrgyzstan were singled for praise at the October 1996 Consultative Donors' Group in Tokyo, where it received pledges of over \$450 million. In 1995 Kyrgyzstan became the first NIS to commit itself to avoid imposing any restrictions on payments for current international transactions and avoid engaging in multiple currency practices or discriminatory currency arrangements.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

With some exceptions, internationally recognized human rights appear to be generally respected in Kyrgyzstan. The Kyrgyz Republic has hosted international human rights conferences on Central Asia in 1992 and 1993. President Akayev has sought to reassure ethnic minorities while simultaneously trying to satisfy Kyrgyz aspirations for greater national identity. The new constitution includes substantial protection for individuals, including members of non-Kyrgyz ethnic groups. Concerns remain about ethnic discrimination, but in general the situation for minorities has improved, and emigration has decreased.

The Kyrgyzstani Constitution provides for freedom of religion. The government does not support any specific religion and expressly forbids religious instruction (including atheism) in government schools. The government does not, however, fully protect religious rights. A 1996 law requires that religious groups register with the State Commission on Religious Affairs. Baptists in one area of Kyrgyzstan reported local police had disrupted their services, and Muslims have complained of some government intrusion. There is no law on emigration, though administrative procedures permit the movement of people.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

The Kyrgyz Republic has made a strong commitment to respect the observance of international legal obligations and OSCE commitments. The Kyrgyz Republic is at peace with its neighbors, and is also a strong proponent of dialogue and cooperation among the states of the former Soviet Union. Kyrgyzstan participates in Partnership for Peace exercises. It has also joined with neighboring Uzbekistan and Kazakstan in forming a Central Asian Peacekeeping Battalion.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

The Kyrgyz Republic supports regional and international efforts to resolve peacefully the conflict in neighboring Tajikistan as well as in Afghanistan. A unit of the Kyrgyzstani military serves in the CIS peacekeeping force in Tajikistan. The government of the Kyrgyz Republic is committed to establishing a multi-ethnic national identity and is particularly sensitive to the concerns of the non-Kyrgyz ethnic groups in the Kyrgyz Republic, although there are credible allegations of discrimination on the part of individual government officials.

Section 498A(a)(6): “implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”**

The Government of the Kyrgyz Republic has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. The Kyrgyz Republic acceded to the NPT on July 5, 1994. The Kyrgyz Republic is also committed to maintaining a small, defensive military force or national guard. The Kyrgyz Republic has said that it is strongly opposed to the proliferation of weapons of mass destruction, their delivery systems or related technologies. Although we received reports in 1995 of Kyrgyzstani involvement in unspecified defense-related cargo transfers which are of concern, which we review under applicable legal provisions, these reports were unconfirmed, and we do not believe that the Kyrgyz Republic has engaged in significant transfers of conventional weapons, or in the proliferation of nuclear, biological, or chemical weapons,

their delivery systems, or related technology. The Kyrgyz Republic is a signatory to the multilateral Convention on the Prohibition of the Development, Production, Stockpiling, and use of Chemical Weapons and on their Destruction.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

Kyrgyzstan suffered severe environmental degradation under Soviet rule, and there is broad-based support for domestic protection of the environment. Kyrgyzstan has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues. Kyrgyzstan has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a State Committee on Nature Protection. National environmental NGOs are gaining access to the policy-making process on environmental issues.

Kyrgyzstan has been an active and constructive player in regional and international efforts addressed to alleviate the deteriorating environmental conditions and foster regional cooperation in the Aral Sea basin. Kyrgyzstan has worked with the World Bank and international donors on a 15- to 20- year plan to stabilize the Aral Sea.

Section 498A(a)(8): “deny support for acts of international terrorism.”

The Government of the Kyrgyz Republic does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. The Kyrgyz Republic signed both the October and December 1991 agreements. The December 1991 agreement provided that the Kyrgyz Republic’s share of the FSU debt would be 0.95 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In August 1992, the Kyrgyz Republic signed a "zero option" agreement with Russia under which Russia will pay the Kyrgyz Republic’s share of the debt in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs which was established in January 1992. In November 1995, the U.S. side of this Commission made a successful visit to Kyrgyzstan. The Commission met with senior government officials, including President Akayev. All officials cooperated fully and pledged to do their utmost to locate information on American POWs/MIAs. There is no evidence of any American POWs/MIAs in Kyrgyzstan.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of the Kyrgyz Republic is not providing military, intelligence, economic, nuclear, or other assistance to the Government of Cuba.

**CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961**

KYRGYZSTAN

Section 498A(b)(1): Has the President determined that the Government of Kyrgyzstan has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. We do not believe that the Government of the Kyrgyz Republic is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Kyrgyzstan “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. We do not believe that the Government of the Kyrgyz Republic has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Kyrgyzstan “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of the Kyrgyz Republic has made such transfers.

Section 498A(b)(4): Is the Government of Kyrgyzstan “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of the Kyrgyz Republic is prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of the Kyrgyz Republic "is providing assistance for, or engaging in, nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from the Kyrgyz Republic under the Foreign Assistance Act with 30 days of such a determination, or has Congress enacted legislation disapproving the determination with that 30-day period?"

No. We do not have information from which to conclude that the Government of the Kyrgyz Republic is providing such assistance or engaging in such nonmarket based trade.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

MOLDOVA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A (a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

Moldova continued its efforts to consolidate its independence and continue its transition to democracy and a market economy during 1996. Moldova held its first multi-party presidential elections on November 17, in which nine candidates competed. As none gathered the required majority of votes to win, the top two vote-getters, incumbent President Snegur and Parliamentary Speaker Lucinschi, faced each other in a December 1 runoff, which Speaker Lucinschi won. International observers judged the elections to have been generally free and fair. We expect Moldova to have a normal transition and formally inaugurate President Lucinschi on January 15, thus becoming only the second NIS since the breakup of the Soviet Union to have a peaceful transition of presidential power. Separately, a non-governmental law center has been established with U.S. help to promote development of the legal profession and the judiciary.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

Moldova continues to be a regional leader in implementing market-based economic reforms, private ownership and integration into the world economy. The IMF in May approved a three-year Extended Fund Facility (EFF). The agreement will provide Moldova with \$200 million in credits to help it sustain the momentum of economic reform. The latest agreement follows Moldova's successful completion of prior IMF programs: a Systemic Transformation Facility in 1993 and two Stand-by Arrangements -- one in December 1993 for \$78 million, and another in March, 1995 for \$88 million (of which only \$49 million was used.) The World Bank also has worked actively with the Moldovan Government to promote reform, including a \$60 million rehabilitation loan in 1993, a \$60 million Structural Adjustment Loan in December, 1994 and a \$35 million private sector development loan approved in February 1996. In addition, the World Bank in 1995 approved a first-of-its kind \$30 million pre-export guarantee facility against political and economic risk.

Moldova has adopted the basic reforms necessary to a market economy: prices have been largely freed, foreign trade has been almost fully liberalized, the Moldovan leu is fully convertible for current account transactions and broadly stable. The government's commitment to price stability is particularly impressive; inflation has fallen steadily since 1992, to 24% in 1995 and about 15% in 1996. A largely completed mass privatization program has privatized 2,132 enterprises from most economic sectors; about 80% of all housing units are now in private hands. Export quotas have been eliminated, and import tariffs have been substantially reduced. Moldova has reaffirmed its commitment to a liberal trade regime by initiating a process of accession to the World Trade Organization, with assistance from U.S. AID.

The outlook for Moldova is positive. While it is not clear whether an output increase will be recorded for 1996, GDP is widely expected to grow in 1997. Export growth has been strong, despite the impact of a series of droughts and floods on the key agriculture sector. Weaknesses include continued pressure on the government budget, as shown by continued growth of wage and pension arrears, and continued growth of arrears for energy. However, the government has renegotiated its gas debt with RAO GazProm and is committed to strengthened payments discipline for energy consumption. Although agricultural land privatization has been proceeding, the Parliament

has not yet passed legislation necessary to make land tradable. However, President-elect Lucinschi has expressed his commitment to continued economic, and agricultural, reform.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

Basic human rights such as freedom of speech, press, assembly, and religion are generally respected. However, the independent television station has at times been pressured by the government. Some journalists were attacked early in the year, but the identity of those responsible could not be determined. In addition, proselytizing is prohibited by law, though the authorities have taken no legal action against individuals for proselytizing. Despite continued tensions between ethnic groups and political forces, such as the separatist dispute in the Transdnister region, and the human rights violations associated with it, the human rights situation in Moldova remained generally positive in 1996. Moldova in 1995 peacefully settled a separatist dispute with the Gagauz (Christian Turkic) minority in the south by granting the region local autonomy in 1995. The 1994 constitution provides the legal framework to ensure protection of minority rights, and has received positive assessments from Western experts. Moldova has abolished exit visas for travel abroad. While some restrictions on emigration remain, there were no known cases denying permission to emigrate in 1995 or 1996.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

Moldova takes seriously its membership in the OSCE and its obligations under the Helsinki Final Act. A 1992 Russian-brokered ceasefire in the separatist Transdnister region has held firmly since July 1992. The cease-fire established a tripartite peacekeeping force (comprised of Moldovan, Russian, and Transdnisterian units) that has prevented a return to the use of force in the region. Negotiations aimed at resolving underlying issues in this conflict continue, as does the work of a OSCE mission there.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

Since the inception of the military conflict in the Transdnister region, the Moldovan government has sought to cooperate with its neighbors -- Romania, Ukraine, and Russia -- in seeking a peaceful resolution of this conflict. The Moldovan government succeeded in negotiating with Russian and Transdnisterian officials an effective ceasefire in 1992. Moldova has cooperated with both OSCE and UN fact-finding/observer missions sent to the area and has consistently called for international mediation assistance. A OSCE mediation mission began working in Moldova in April 1993; its mandate has been extended through mid-1997. Moldova in 1995 peacefully settled a separatist dispute with the Gagauz (Christian Turkic) minority in the south by granting the region local autonomy.

Section 498A(a)(6): implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and**
- (D) restraining conventional weapons transfers.”**

Moldova has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Moldova has fulfilled all obligations of the Treaty on Conventional Armed Forces in Europe (CFE). Moldova's own armed forces are still in the formative stage, with a manpower objective at about one percent of total population. Moldova acceded to the Nuclear Non-Proliferation Treaty (NPT) in October 1994 in Washington. We do not believe that Moldova has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Moldova has ratified the multilateral Convention on the Prohibition of the Development, Production, Stockpiling, and Use of Chemical Weapons and on their destruction (the CWC), and in September 1996 became a member of the International Atomic Energy Agency. We are unaware of any conventional arms transfers to other countries from Moldova during the last year.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

While information on specific "constructive actions" undertaken by the Moldovan Government to reduce cross-border pollution is limited, Moldova is taking steps to reduce overall levels of pollution. With U.S. help, Moldova has begun to increase environmental awareness by establishing environmental risk analysis courses at six major universities, and through increased awareness of the benefits of low-till farming methods via demonstration projects. Energy sector improvements will also help reduce pollution through increased efficiency.

Section 498A(a)(8): “deny support for acts of international terrorism.”

The Government of Moldova does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Moldova signed the October but not the December 1991 agreements. The December 1991 agreement provided that Moldova's share of the FSU debt would be 1.29 percent. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In October 1993, Moldova signed a "zero option" agreement with Russia under which Russia will pay Moldova's share of the debt, in return for its share of the assets as defined by the December 1991 agreement.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs which was established in January 1992. Moldovan officials warmly welcomed a Commission delegation led by the Chairman of the U.S. side, Ambassador Malcolm Toon, in August 1995. With the full support of the Moldovan government, Ambassador Toon also made an appeal to the people of Moldova, asking them to come forward with information. Moldova has also fully supported subsequent Commission inquiries in Moldova.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Moldova is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

MOLDOVA

Section 498A(b)(1): Has the President determined that the Government of Moldova has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. There have been shortcomings in human rights observance; these have, however, often been on the part of separatist "authorities," and we do not believe that the Government of Moldova is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Moldova “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. We do not believe that the Government of Moldova has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Moldova “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of Moldova has made such transfers.

Section 498A(b)(4): Is the Government of Moldova “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Moldova is prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Moldova "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Moldova under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination with that 30-day period?"

No. The Government of Moldova is not providing assistance to, or engaging in non-market-based trade with, Cuba.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

RUSSIA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

Russia has continued to make important progress towards building fundamental democratic institutions. In December 1993, the Russian people voted to approve a new Constitution, replacing its heavily-amended Soviet-era predecessor. Although much of the implementing legislation has not yet been passed, this new Constitution provides strong guarantees of individual freedoms. The government took a step forward in 1994 by reestablishing a Constitutional Court, which is the only body with the authority to settle constitutional disputes; the Court resumed its activities in early 1995, as soon as all the vacancies on the bench were filled.

In December 1993, the Russian people elected a bicameral legislature in Russia's first free and fair, multi-party parliamentary elections in over 70 years. Although weakened by the 1993 Constitution, the Russian parliament does have important powers, for example improving the state budget and confirming the Russian prime minister. The Constitution mandates that parliamentary elections be held every two years. Elections to the Duma were held once again on December 17, 1995, marking the first time in Russia's history that two consecutive democratic, multi-party elections have taken place. International observers concluded that the elections, with a high voter turnout of 65%, were free and fair. In 1996 for the first time in Russia's history as a country Russian voters went to the polls to elect their leader. Eleven candidates competed in the first round on June 17, with President Yeltsin and Communist Party head Zyuganov emerging as the top two vote-getters. President Yeltsin won re-election July 3 with a margin of 53.7% to Zyuganov's 40.4%. Ballots cast against both candidates constituted 4.86% of the vote. Turnout was high, with a 67% participation rate. Observers from the OSCE, EU, and Council of Europe called the elections "free, impartial, and fair," and noted "no manipulation or falsification" despite some minor breaches of procedure. Elections for regional leaders are also taking place in Russia this year. By mid-January 1997 the heads of all 89 subject territories of the Russian Federation, who make up the Federation Council, the upper house of the Russian parliament, will have been elected.

We are working closely with the Russian Government on judicial programs to help reintroduce adversarial jury trials. While progress has been slow due primarily to inadequate resources, the concepts of judicial independence and respectability are slowly taking root, furthering progress toward establishment of a rule-of-law state.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

The government and central bank of Russia continued a consistent stabilization program in 1996 consisting of a tight budget, gradual lowering of inflation through non-inflationary financing of the budget deficit and further energy sector liberalization. There was an absence of notable movement toward trade reform, but restrictive measures advocated by protectionists were largely resisted and further progress was made toward eventual WTO entry.

In February 1996, the government negotiated with the IMF an extended fund facility program (EFF) of \$10.2 billion for 1996-98 to continue the process of structural reform and macro-economics stabilization. Performance under that program in 1996 was mixed. Shortcomings were most notable in the area of revenue collection. It is widely held that a lack of political will to attack a culture of tax nonpayment, worsened by the deficiencies of the

existing tax system, largely explained a growing arrears problem. As a result of program difficulties, the IMF suspended monthly credits to the Russian Government in July and again in October and November.

Successes during the year included the effective taming of inflation, the continued stabilization of the ruble within a slowly sliding currency band and Russia's reentry into the international financial markets. Inflation fell markedly in 1996, reaching a monthly low of minus 0.2 percent in August and an estimated annual rate of 20-22 percent. This compares favorably to total inflation for 1995 of 131.4 percent, and the even higher 214 percent in 1994. In July 1995, the government and Central Bank introduced the currency band, under which the ruble was initially allowed to move between 4300-4900 rubles to the dollar. Originally scheduled to expire on October 1, 1995, the mechanism was subsequently extended and adjusted on several occasions, most recently in November for use throughout 1997. As of January 1, 1997, the limits of the new band will be set at 5500-6100 rubles to the dollar. Finally, the Russian Government reentered the international financial markets for the first time since 1917 with the successful floating of a \$1.0 billion Eurobond issue. Subscription interest was high among on international markets, interpreted by many as a signal of financial confidence. Political and macro-economics stability also were factors in pushing down yields on domestic government securities to just under 40 percent by the end of 1996.

As in the preceding year, the Russian government compressed spending sharply during 1996 in order to contain the budget deficit, which end of year estimates placed at about 6 percent of GDP. While sequestration of planned expenditures enabled the government to maintain a tight monetary policy, the policy produced significant arrears in federal wage and pension flows, as well as shortfalls in procurement and other payments. The prospect of additional sequestrations in 1997 will certainly produce continued problems of this sort.

While 1995 saw significant consolidation of economic liberalization measures, with passage of legislation covering securities, the central bank, commercial banks, and state regulation of foreign trade activity, 1996 witnessed less legislative activity owing to the distractions of the presidential campaign and the ill health of President Yeltsin. Among positive steps, action was taken early in the year via presidential decree to create a functioning land market. Also in agriculture, producer incentives improved as prices moved toward world levels. Capital markets benefited from the establishment of a regulatory agency and improved requirements mandating transparency in transactions and securities offerings. Utilizing existing authority, the Central Bank continued to strengthen the banking system by weeding out weak institutions.

After substantial success in privatization in 1993-1994 and mixed results in 1995, privatization largely stalled in 1996. About two-thirds of Russia's GDP and 85 percent of manufacturing output are now produced by entities formally classified as belonging to the private sector. Many nominally private firms and organizations have controlling interests owned by the state or are subject to various collectivist arrangements, however, and have yet to adapt to market conditions. Cash sales of residual state-owned shares in already privatized entities continued during the year, but no new major entities were put up for sale. As a result, anticipated revenues of approximately 12 trillion rubles will be missed by a wide margin. Moreover, promises to use government managed shares to improve corporate governance and efficiency in privatized companies have not, for the most part, been fulfilled. In a troubling move, the Russian Government apparently plans to reorganize and privatize its multi-billion dollar telecommunications industry in a manner that will exclude foreign investors in favor of well-connected Russian banks -- an insider approach likely to be replicated in other major sales in the coming year.

Russia has made progress toward integration into the world economy. In 1992, Russia was admitted to the IMF and the World Bank. It is also a member of the EBRD. Russia has abandoned the monopoly on foreign trade granted to state-owned Foreign Trade Organizations during the Soviet era, allowing both private companies and state-owned enterprises to engage in foreign trade operations. Russia has applied for accession to the WTO, and "working parties" to study its trade regime and develop a protocol of accession were held in 1996. Russia also has applied for entry into the other major economic multilateral organizations in which it is not yet a full member: OECD, Paris Club (as a creditor state), APEC, and Asian Development Bank. In each case, procedures have been initiated that may lead to accession.

Russia has concluded negotiations with the U.S. on a series of economic framework agreements. A U.S.-Russia Trade Agreement entered into force in June 1992. In the same month, a Bilateral Investment Treaty was signed, later approved by Congress in August 1992. However, the Russian Duma has failed to vote on ratification. A Bilateral Tax Treaty entered into force in December 1993. An OPIC agreement is also operative. Russia is

eligible for EXIM public sector short- and medium-term financing. It also received GSP benefits prior to the lapse of the program in July of 1995.

With the signing of the bilateral trade agreement and the establishment of the State Committee on Patents and Trademarks (RosPatent), Russia signaled its intent to provide strong protection of intellectual property rights. The Russians have enacted laws protecting patents, copyrights, trade and service marks, and semiconductor chip designs. A provision of the unfair competition law protects trade secrets. The laws are consistent with the norms established by the conventions administered by the World Intellectual Property Organization (WIPO), including the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works. Among others, the Russian Federation has joined the following WIPO Conventions: Convention Establishing the World Intellectual Property organization; Paris Convention for the Protection of Industrial Property, Madrid Agreement Concerning the International Registration of Marks, Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, Berne Convention for the Protection of Literary and Artistic Works, and the Geneva Convention for the Protection of Producers of Phonograms.

Improvements to the copyright law were enacted in 1995, authorizing the seizure and destruction of equipment used primarily to infringe copyrights. Protection for sound recordings was not provided on a retroactive basis, however, and criminal penalties are not sufficient to provide a deterrent to copyright infringement. Enforcement of copyrights has been minimal and piracy is widespread. As a result, Russia was placed on the Special 301 Watch List in April 1996, with an out-of-cycle review to be conducted in December.

A new Russian Criminal Code, which increases penalties for infringement of intellectual property rights (IPR), was signed by President Yeltsin in June 1996 and went into effect on January 1, 1997. Other draft legislation would establish special courts for intellectual property cases and would provide training for judges, attorneys, police and customs officers. The government has requested technical assistance in this area. A draft third part of the Civil Code is reported to contain provisions which could conflict with important IPR protections in other laws. However, the draft is in preliminary form and has not yet been made public for comment.

Adherence to contracts in Russia continues to be an area of difficulty. Judicial backlogs, conflicting jurisdictions, lack of a recognized body of contract law and corruption are among factors producing disputes and hindering their resolution. Foreign firms often have sought to include provisions in their contracts stipulating adjudication or arbitration in third countries.

A second section of the Civil Code was passed in late December 1995 encompassing some basic areas of commercial law. The law will govern all civil transactions involving sale and purchase, gifts, rent and the conclusion of contracts. It also defines basic rules for transport of goods, loans and credit, bank deposits and other economic and financial activities. A specific evaluation of the impact of this legislation on contracts will be possible after the first adjudications of contract disputes.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

The Russian Federation has made steady progress in the last five years in developing, in law and practice, a society which respects human rights. In February, 1995, Russia was admitted to the Council of Europe. During the last two years, however, the conduct of Russian forces in the conflict in Chechnya has caused grave concern. Prior to the conclusion of a negotiated settlement, in August, 1996, Russian forces acted with widespread and repeated disregard for human rights during the conflict. As a result of the indiscriminate and disproportionate bombing of Chechnya by Russian forces, thousands to tens of thousands of civilians were killed, and about 500,000 people were displaced. Other Russian human rights violations in Chechnya included: the inhumane treatment of noncombatants; arbitrary detention, beating, and in some cases torture and possibly summary execution at "filtration" (detention) centers; and obstructing the delivery of humanitarian aid. These actions violate a number of Russia's obligations under international humanitarian law principles, both customary and conventional, including the Geneva Conventions and the OSCE Code of Conduct. The rebel forces have also been guilty of human rights violations, including terrorist attacks on civilians.

Though still in its early stages, the development of the rule of law is supported by all of Russia's mainstream political forces. Russia's constitution, approved by referendum in December 1993, guarantees respect for internationally recognized human rights. Although the Russian parliament has been slow to pass implementing legislation in many areas, the constitutional guarantees of rule of law, and the fundamental freedoms of speech, press, religion, assembly and movement have recast the individual's relationship with the state in Russia. The Constitutional Court resumed operations in 1995 and is making progress in establishing itself as the final arbiter of constitutional questions. Problems in legal reform include an underfunded judiciary which, though demonstrating increased independence, remains subject to political influence, particularly in high-profile cases. The penal system is also woefully short of resources and conditions for those in custody deteriorated in 1996. Suspects are routinely detained for 12-18 months in pre-trial detention centers; conditions there and in regular prisons are deplorable.

Debate over and coverage of the war in Chechnya has demonstrated both the attainments of press freedom in Russia and continuing problems facing journalists there. Coverage of the war has been intensely critical of the government's conduct and has included graphic depictions of the war's consequences for civilians and combatants alike. The media's coverage has played a major role in shaping the public's negative attitude toward the war. Though Russia has respected the right of the media to report on the war, the government has been criticized for not taking adequate measures to ensure the physical safety of journalists. In 1996, three journalists were killed in the war and a total of 16 during the course of the conflict.

In May, Vladimir Kartashkin was appointed chairman of the Presidential Human Rights Commission, following the departure five months earlier of Sergey Kovalev, who resigned in protest over Russia's conduct in the Chechen conflict. Although Kovalev's departure has diminished the stature of the Commission, there has been some movement to institutionalize its activities as was articulated in a presidential decree in October. The post-Kovalev Commission, however, is untested and it remains to be seen whether it will become an independent advocate for human rights.

Restrictions on freedom of movement, imposed through modifications of the propiska (residence permit) system, remain a human rights concern. The Mayor of Moscow has condoned the removal of hundreds of people who lack residence permits to live in the city. The rules are selectively enforced, with people from the Caucasus and Central Asia forming a disproportionate number of the deportees. There are also credible reports of Chechens who possess valid residence permits being forced to leave Moscow and other large cities.

Religious freedom has flourished in Russia since independence, with traditional and non-traditional faiths have experiencing tremendous growth. Although certain religious groups encounter societal prejudices and even antagonisms in Russia, the government has not inhibited in the free practice of religion and the top leadership has consistently championed the cause of religious toleration and a 1990 law which guarantees freedom of religion and separation of church and state. Some parliamentarians, however, advocate new legislation that, while preserving the principle of toleration, would favor the Russian Orthodox Church and place restrictions on foreign-supported missionary activity. A number of jurisdictions within the Russian Federation have already imposed restrictions on the activities of missionaries which violate the 1990 law.

Since the break-up of the Soviet Union in 1991, the Russian Federation has made steady progress in establishing and implementing legal guarantees of the right to emigrate. This right, which is enshrined in Russia's 1993 Constitution, was reaffirmed during 1996 with the passage of the law on "Procedures for Departing and Entering the Russian Federation," which was signed into law by President Yeltsin on August 15, 1996. This law reaffirms Russia's policy of allowing its citizens to freely exercise the right to travel abroad and to emigrate. It also details the procedures for obtaining travel documents, such as passports, and elaborates the circumstances under which the state can limit the freedom of travel. The law replaces corresponding USSR laws and the interim procedures that had been adopted by Russia.

The new entry and exit law contains significant improvements over the previous regulations as well as needed clarification of some controversial policies. Significantly, the law specifies exit restrictions for citizens who have had access to state secrets. The law gives the Russian government the right to deny Russian nationals who, during the course of their work, had access to "secret," "top secret," and "highly sensitive" material, permission to travel abroad for up to ten years following the last date of access to such material. Under the law, this restriction must be explicitly stated in the employment contract signed by the employee when commencing work. It also provides a measure of transparency by requiring that denial of exit on secrecy grounds specify the reasons for and the duration

of the restriction and indicate the name and position of the official responsible for the decision. In the past, such rulings were frequently made anonymously and without stated reasons.

The entry and exit law also formalizes the status of the interagency commission which hears appeals of Russian nationals who have been refused permission to travel on secrecy grounds (commonly referred to as the Ivanov Commission). Since its inception in 1993, the Ivanov Commission has met over 60 times and has heard over 800 cases. According to the Russian Ministry of Foreign Affairs (MFA), between July 1996 and December 1996, the Interagency Commission met 6 times and reviewed 168 cases -- 149 of these cases were decided in favor of the applicant, 16 applicants were refused permission to travel until the expiration of the five-year period of prohibition against travel abroad due to an individual's previous access to sensitive materials, and decisions on 3 cases were postponed pending the receipt of additional information. Because there is currently a backlog of approximately 250 cases before the Commission, it can take more than six months to have a case heard.

An estimated 5,000 to 6,000 persons, who have not appealed to the Ivanov Commission, have been refused passports on security grounds and are waiting the requisite time. Some human rights groups have criticized some of the decisions of the Ivanov Commission. In one contested case, the applicant, who is blind and elderly, has been told he must wait until 1999 to receive a passport because he previously worked with secret documents.

The new law loosens restrictions on draft-age men seeking permission to travel and grants the state the right to refuse passports to individuals who are the subject of legal proceedings or convicts who have not served their sentences. The new law, however, retains restrictions that allow the state to deny the right to travel "temporarily" if an individual has evaded performance of financial obligations imposed by a court -- such as alimony payments -- until the obligations are fulfilled or the parties have come to agreement. In practice, this rule has sometimes allowed relatives or former spouses to effectively delay or even veto the emigration plans of some Russian nationals. The United States has consistently urged the Russian government to resolve these so-called "poor relative" cases and will continue to monitor such cases to determine whether this law presents undue obstacles to emigration.

After decades of Soviet rule during which the right to travel abroad was restricted to a narrow segment of society, the Russian government has succeeded in developing procedures that allow its nationals to travel abroad and emigrate without hindrance. According to the U.S. Embassy in Moscow, the time for processing passport applications for Russian nationals with passports who wish to travel to a foreign country or who wish permanent residence abroad is two (to six) months. The time for processing passport applications for Russian nationals who wish to emigrate who do not already have a passport is four to five months on average.

As a result of such progress, tens of thousands of Russian citizens emigrate annually. In FY 1996, approximately 7,586 Russian citizens emigrated to the United States and 17,512 Russian citizens emigrated to Israel. The number of state secrecy and "poor relatives" cases on the listings of "refuseniks" maintained by American Jewish organizations has decreased from over one thousand in the late 1980's to about eighty today. Russian and American human rights groups, leaders of Jewish communities in Russia, and officials of third governments continue to tell us as they have for the past two years that freedom of emigration is a reality in Russia.

On April 4, the Russian Ministry of Justice revoked the accreditation of the Jewish Agency (JA), a quasi-governmental organization which assists Jews from the former Soviet Union to emigrate to Israel, effectively suspending the Agency's legal right to operate in Russia. JA operations were not interrupted in practice and there were no reports of any Jewish emigres being prevented from leaving Russia. Following consultations with the Russian authorities, JA officials and Russian Jewish community leaders founded the Jewish Agency of the Russian Federation (JARF), essentially giving the JA the legal status of a Russian organization rather than of a foreign one. After a series of delays, this process was completed in October. The JA's operations continued without disruption throughout this period.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Russia has repeatedly professed, both publicly and privately, its commitment to uphold all OSCE principles, including those governing territorial integrity, national sovereignty, non-use of force and peaceful settlement of disputes.

However, during the Chechen conflict, the Russian forces repeatedly violated key provisions of international humanitarian law and the OSCE Code of Conduct, including: the disproportionate and indiscriminate use of force against noncombatants; arbitrary detention; beatings of prisoners; the torture or summary execution of Chechens in detention centers; and harassment and attacks on journalists in the war zone. Although humanitarian organizations succeeded in providing relief supplies throughout most of the year, government forces at times obstructed the delivery of these materials. Government forces also hindered the provision of medical assistance to injured combatants and noncombatants alike.

The Russian government permitted the establishment of the OSCE Assistance Group (AG) in Chechnya in 1995 and in 1996 was increasingly receptive to attempts by the AG to mediate a settlement with the Chechen rebels. In August, Russia and Chechnya agreed to a peaceful settlement that deferred the question of Chechnya's political status but provided for a cease-fire, exchange of prisoners and steps for the reconstruction of the region's economy. With some lapses, both sides have honored the agreement and consistently reaffirmed their commitment to avoid violence in the future. Russian troops were on schedule to withdraw entirely before the end of the year and the Chechen authorities have scheduled elections for January, 1997.

Despite the absence of open conflict, Chechnya remains a dangerous region. In December, six medical workers from the International Committee of the Red Cross were brutally murdered in territory under the control of the Chechen authorities. This savage act was the worst-ever tragedy in the history of the Red Cross. Kidnappings and assassinations, some politically motivated, have also occurred regularly in Chechnya since the beginning of the conflict in 1994.

Russian leaders, including President Yeltsin in his address at the opening of the 1994 UN General Assembly, have called for greater United Nations and OSCE peacemaking efforts in the former Soviet Union and disclaimed any Russian "neo-imperial" plans for the region. Russia has, to varying degrees, been supportive of OSCE missions and UN peace efforts in Chechnya as well as a number of other countries, including Azerbaijan (Nagorno-Karabakh), Estonia, Georgia, Latvia, Moldova, Tajikistan, and Ukraine.

In some cases, Russian forces left stationed on the territory of neighboring states have complicated ethnic conflicts in these states. The facts concerning the role of the Russian central government in such cases are not always entirely clear, however. We continue to seek a more complete understanding of the role played by Russia in each of the conflicts in the other NIS and do not hesitate to raise with Moscow any concerns we may have.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Russia's role in resolving regional conflicts in adjacent countries has been generally positive, though Russia's foreign policy remains committed to strengthening the CIS, protecting Russia's geopolitical interests in the region of the former Soviet Union and defending the interests of ethnic Russians in neighboring states. Developments in Russia's policy in 1996 included:

On October 9, 1996 President Yeltsin approved guidelines for a national border policy that includes mutual respect for sovereignty, territorial integrity, and inviolability of Russia's existing borders. Border agreements with Estonia and Ukraine, however, have not been concluded.

On September 24, 1996 before the 51st session of the United Nations General Assembly, Foreign Minister Yevgeniy Primakov stated that "in our relations with the CIS countries, we resolutely oppose both the ideas to restore the Soviet Union, that are based on the denial of sovereignty of the Commonwealth states, and narrow-minded national-isolationism. We stand for voluntary integrational unification of the Commonwealth members."

Russia continues to cooperate with a Georgia-based OSCE mission charged with bringing Ossetians and Georgians to the negotiating table. In 1992, Russia helped broker the cease-fire agreement in South Ossetia. This truce accord still holds today.

Georgian leaders have stated that, in their view, President Yeltsin and his supporters do not have a policy of interfering in the Abkhaz conflict to the detriment of Georgia. At the same time, Russian facilitators in the negotiating process have not been able to convince the Abkhaz representatives to give up their demands for separate, equal status with the Georgian state. Since the conclusion of an agreement on Russian military bases in Georgia -- which President Shevardnadze signed in September 1995 but which has not been ratified by the Georgian parliament -- Moscow has been supportive of Georgian claims and willing to press the Abkhaz to negotiate seriously toward a settlement.

Russia and Finland co-chair the Minsk Group peace process, which is the OSCE's negotiating forum for a peaceful settlement of the Nagorno-Karabakh conflict. A cease-fire has been in effect in Nagorno-Karabakh since May 1994 and has held, despite sporadic violations. The OSCE Minsk Group has been actively negotiating with the parties to reach a durable settlement. Minsk group meetings have been held periodically in Moscow, Helsinki, Vienna, and Bonn and have focused on such issues as the status of Nagorno-Karabakh, the Lachin corridor, the return of refugees and displaced and the withdrawal from occupied territory. At the Budapest Summit in December 1994, Russia agreed that an OSCE peacekeeping force would be used in Nagorno-Karabakh. The OSCE is working toward establishing this multinational peacekeeping force to help implement an accord on Nagorno-Karabakh. France will soon replace Finland as co-chair of the Minsk Group peace process.

Russia and Ukraine have yet to resolve the issue of dividing the Black Sea fleet, and Russia continues to demand extensive control over all naval facilities in Sevastopol. In the late fall, the Duma and Federation Council each adopted non-binding resolutions claiming Sevastopol as Russian territory and denying Ukrainian sovereignty over the city. Russia has also resisted Ukrainian requests to demarcate formally the interstate border.

The Russian military is present in Tajikistan. Its activities support both the current regime and Tajikistan's territorial integrity, and there is close cooperation between Russian and Tajik government forces. Russia's 201st Motorized Rifle Division is part of the Commonwealth of Independent States (CIS) Collective Peacekeeping Force established in 1993, although its presence in Tajikistan dates from Soviet times. Russian Border forces also dominate the multi-national CIS forces guarding the Tajik-Afghan border and which include personnel from Tajikistan, Kyrgyzstan, Uzbekistan, and Kazakstan. There have been reports of Russian bombing of northern Afghan territory since at least 1994. In August 1996, Russian border forces and Afghan authorities established a security zone along the border in an effort to limit infiltration from Afghanistan, but the ability of the Afghans to enforce this collapsed with the seizure of Kabul by Taliban forces at the end of September.

On October 21, 1994, Russia and Moldova signed a troop withdrawal agreement in which Russia agreed to withdraw its troops and equipment within three years after both parliaments ratify the agreement. The Russian parliament has not yet been ratified the agreement. However, President Yeltsin has since publicly reaffirmed Russia's commitment to the withdrawal agreement. The Moldovan parliament ratified the agreement in late 1994. Forces belonging to the Russian 14th Army have been stationed in Moldova since before its independence. About 6,000 Russian troops are currently present in the Trans-Dniester area of Moldova. Moldova opposes the presence of Russian troops and has sought their removal. The Russian and Moldovan governments are conducting ongoing discussions on the withdrawal process, with the direct support and involvement of the OSCE.

On November 22, 1996, Prime Minister Chernomyrdin and other high-ranking Russian officials made personal efforts to facilitate a compromise in the dispute between President Lukashenko and leaders of the parliamentary and judiciary opposition in Belarus. Russia's initiative complemented other international efforts to seek compromise and respect for constitutional norms in Belarus. The agreement fell apart shortly after it was reached, however, and Lukashenko pressed ahead with a constitutional referendum that resulted in his obtaining extensive new powers at the expense of the other two branches of government.

Russia has been constructive in mediating international conflicts through its participation as a cosponsor of the Middle East peace process, a member of the contact group, and its support of UN and other multinational initiatives in the Persian Gulf, Haiti, and Angola.

On Chechnya, please see sections 498A(a)(3) and 498A(a)(4).

Section 498A(a)(6): “implement responsible security policies, including:

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”

Arms Control. The Government of Russia continues to make progress resolving arms control issues inherited as a result of the disintegration of the Soviet Union, including the fulfillment of obligations undertaken in connection with the ABM, INF, START I, and CFE Treaties.

The Russian parliament ratified the START I Treaty on November 4, 1992, which entered into force December 5, 1994. The detailed work of implementing the Treaty is well underway, including inspections and eliminations of strategic offensive arms. The Joint Compliance and Inspection Commission (JCIC) to which both Russia and the U.S. belong is the mechanism for resolving questions about implementation of START I. The JCIC meets regularly in Geneva and a number of implementation questions have been resolved through this mechanism.

The U.S. and Russia signed the START II Treaty on January 3, 1993. With the START I Treaty in force, it is important that Russia complete the legislative steps required for START II ratification and President Yeltsin and other senior Russian officials have frequently stated their intention to ratify the treaty. However, the Duma has not yet ratified START II.

Russia has reaffirmed its commitment to the ABM Treaty at the Foreign Minister and Presidential levels. In implementation activity, Russia has been a leading participant in the Standing Consultative Commission and bilaterally, in discussions and negotiations on ABM Treaty succession as well as on demarcation, or distinguishing between the ABM systems that are limited by the Treaty and other ballistic missile defense systems that are not.

The U.S. and Russia have both signed the CTBT and are cooperating with the international community in finding ways to persuade India to allow that Treaty to enter into force.

Russia has generally fulfilled its CFE obligations to date, including responsibility for completing the first and second phases of CFE-mandated equipment destruction. Russia should, with the other seven CFE successors to the Soviet Union, complete an accounting of the disposition of all former Soviet equipment limited by the Treaty.

While Russia is within the overall limits for CFE treaty-limited equipment in the entire CFE area of application, its deployments in the so-called flank zone exceeded the original CFE flank zone limits that took effect on November 17, 1995. In May, 1996, the thirty CFE states parties reached an agreement on the CFE flank region that will, when formally approved by all member states, allow Russia to comply with the flank limits.

In September 1989, the U.S. and the Soviet Union signed the Wyoming Memorandum of Understanding (MOU), which called for an exchange of data on chemical weapons (CW), and for visits and inspections to relevant military and civilian facilities. Phase I of the MOU was completed in February 1991. Documents allowing for the second and final phase of the MOU were agreed upon at the January 1994 Moscow Summit. Russian implementation of Phase II has yielded problematic results. U.S. inspections of Russian facilities were carried out in accordance with the MOU. The practical experience gained from these visits will be reflected in inspections carried out under the multilateral Convention on the Prohibition of the Deployment, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (the CWC) when the CWC enters into force for the United States. On the other hand, the U.S. believes that several key questions and concerns have not yet been resolved in Russia's data declaration. As provided under the MOU's consultative mechanisms, several rounds of bilateral consultations have been held to discuss U.S. concerns. Overall, these consultations revealed a lack of agreement on certain issues related to MOU implementation. President Yeltsin and other senior Russian officials have expressed support for the MOU. However, Russia still must take concrete steps to fulfill its commitment and resolve existing problems.

In January 1993, Russia signed the CWC, which calls for the eventual elimination of chemical weapons. Following Russia's signing of the CWC, the Duma committee responsible for the Convention prepared and presented to President Yeltsin a plan for ratification. The CWC has not yet been submitted to the Duma pending adoption of needed implementing legislation. However, the Duma has held informal hearings on the CWC.

Several factors -- including Russian economic problems and environmental concerns as a result of CW destruction -- complicate prospects for a smooth and quick ratification process. Nevertheless, over the last two years a number of positive concrete steps have been taken. President Yeltsin signed a Presidential decree, which, inter alia, directed that CW destruction would occur within the republics in which the weapons were stored; an interagency commission for chemical weapons destruction headed by the President's national security advisor was established; the President's Committee was designated executive agent for CW destruction, the site Shchuchye was selected as the location for Russia's first nerve-agent destruction facility; and the Moscow State Scientific Research Institute of Organic Chemistry and Technology (GOSNIOKHT) was selected as the location for the Central Analytical Laboratory.

The President's Committee has submitted a draft plan to the government establishing a framework to speed preparations for fulfillment of Russia's international obligations in the area of chemical disarmament, and a protocol was signed between Kurgan officials and the MOD to begin the site selection process for the Shchuchye chemical weapons destruction facility. While a lack of sufficient funding by the Russian Government remains a problem, these developments are clear indications of increased Russian awareness of, and preparations for, meeting its CW destruction obligations under the CWC.

The significant cost of a destruction program on the scale needed to destroy the Russian stockpile in an environmentally sound manner prevents rapid progress in this area. The U.S. and Russia signed a Plan of Work on January 7, 1994, which paved the way for up to \$55 million in Nunn-Lugar assistance to help Russia develop a comprehensive CW destruction program and to assist Russia in equipping a central CW destruction analytical laboratory. The U.S. and Russia are also cooperating to construct a pilot destruction facility which utilizes Russia technology to neutralize chemical agents through chemical processes.

With respect to the 1972 Convention on the Prohibition on the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (the BWC), the United States has determined that the offensive biological weapons (BW) program that Russia inherited from the Soviet Union violated the BWC at least through March 1992. In early 1992, President Yeltsin confirmed that the former Soviet Union had an offensive BW program and issued a decree in April 1992 prohibiting all activities that contravene the BWC. President Yeltsin has made these commitments to comply with the BWC, but the evidence suggests that his commitment may not be universally shared and may not have been effectively implemented. We will continue to follow developments in this area very closely.

In September 1992, the U.S., U.K. and Russia officials met with their Russian counterparts in Moscow to discuss the BW issue. The U.S., UK and Russia agreed at the conclusion of the talks on a Trilateral Statement outlining a series of steps, some that Russia would take unilaterally, and others that the U.S., UK and Russia would take jointly, to increase confidence that Russia has terminated its offensive BW program. Among other things, the Trilateral Statement provides for visits to non-military and military biological facilities in all three countries, data exchanges on past offensive BW programs and on the status of dismantlement of offensive capabilities, and meetings between experts. To date, some of these activities have been carried out satisfactorily. At the September 1994 Summit, Presidents Yeltsin and Clinton agreed on the importance of full and continued implementation of the Trilateral Statement as a means of providing confidence that the BW program Russia inherited from the former Soviet Union has been terminated. The U.S. firmly believes that the best course to ensure Russian compliance with the BWC is to pursue transparency and openness of BW-related activities and to seek continued implementation of the Trilateral Statement.

We have significant concerns about Russia's current arms control compliance in some areas, notably biological and chemical weapons -- we believe, however, that senior Russian officials are committed to fulfilling Russia's arms control obligations. We base this judgment on repeated expressions of commitment to arms control compliance by President Yeltsin and other senior Russian officials as well as concrete steps that have been taken since December 25, 1991, by Russia to comply with relevant arms control agreements. As noted, this Russian commitment has not been fully implemented and therefore the status of Russian compliance performance remains under our constant, careful review.

Reducing Forces and Expenditures. The Government of Russia has significantly reduced its military expenditures and is planning to restructure its forces in accordance with a new military doctrine that incorporates a much more limited definition of defense requirements than that promoted by the Soviet Union. The new Minister of Defense is

apparently committed to reform and restructuring of the armed forces, however, this will be a long and costly process. The requirements of the CFE Treaty and the CFE IA agreement on personnel limits will also result in significant reductions of Russian forces in the Treaty's area of application.

Non-Proliferation. The United States and Russia have continued their active and productive dialogue concerning non-proliferation of nuclear, biological, and chemical weapons, their delivery systems, and related technologies. As a primary goal of our common non-proliferation agenda, our two countries worked successfully with many other nations to achieve the indefinite extension of the NPT in May 1995. Moreover, with the broadening of our non-proliferation agenda to include such items as regional issues, we agreed to create a formal Bilateral Working Group on Non-proliferation. The agenda and structure for this group has been finalized, and the first full session took place in 1996.

Russia and the U.S. are also in the process of implementing the bilateral agreement for U.S. purchase of low-enriched uranium (LEU) blended down from highly-enriched uranium (HEU) extracted from nuclear weapons. In 1996, eleven shipments containing 248 cylinders with twelve metric tons of HEU were blended down to 370 metric tons of LEU. The LEU will, in turn, be used in nuclear power reactors so that it can never again be used for nuclear weapons. On other initiatives related to fissile materials,

- Russia continues its support for the U.S. proposal of a universal, verifiable and non-discriminatory convention banning the production of fissile materials for nuclear explosive devices;
- Russia is working cooperatively with the U.S. in efforts to enhance material control protection and accountability of fissile material at sites in Russia;
- our two countries have held discussions on issues of safety, transparency, and irreversibility of the nuclear weapons dismantlement process; and
- Russia hosted a Special Summit on nuclear safety and security which was attended by the U.S., other nations in the G-7, in March 1996. The summit featured discussions on a full range of topics, to include materials protection, control, and accounting, nuclear reactor safety, combating nuclear materials smuggling, and waste management issues.
- The U.S. and Russia have engaged in an intensive dialogue about Russia's proposed nuclear cooperation with Iran. While we have not yet reached a mutually satisfactory resolution of this issue, both sides remain committed to the principles of non-proliferation and regional stability in determining the solution.

Russia is in the process of implementing comprehensive export control legislation and establishing an effective enforcement mechanism. U.S. and Russian delegations have held several detailed exchanges on export controls, and believe that progress has been made. On the missile technology side, Russia joined the MTCR as a full member in August 1995.

We periodically receive reports of weapons-of-mass-destruction proliferation related transfers involving Russian entities which we carefully review. A Russian citizen was sanctioned in 1995 for CW proliferation activity, but there is no evidence that the Russian Government was involved in this activity. Russia has, overall, demonstrated a firm commitment to the MTCR and NPT, and to the non-proliferation of chemical and biological weapons.

On the missile issue in particular, Russia has worked diligently with U.S. officials to clarify the remaining questions about previous policies and activities before it became a full member of the MTCR. Additional information related to implementation of U.S. proliferation sanctions laws has previously been provided to Congress on a classified basis.

Conventional Arms: The United States and Russia maintain active contacts on a wide range of conventional arms transfer issues. The Government of Russia has generally complied with its obligations to observe UN arms sanctions against Iraq, Libya, Haiti, and the former Yugoslavia, and has worked with the UN Sanctions Committee as questions have arisen. Russia has moved away from past policies of arms transfers for ideological or strategic purposes. The Russian government has assured us that Russia is competing in the international weapons market as

a responsible supplier which adheres to international agreements, cognizant of the importance of maintaining stability.

During the September 1994 Summit, President Yeltsin publicly pledged that Russia would not enter into new arms contracts with Iran. In June 1995, Vice President Gore and Prime Minister Chernomyrdin reached agreement on the details of the Russian pledge. This understanding makes clear that Russia's commitment is comprehensive, covering arms and arms-related technologies. It also provides for Russia's old contracts to be ended within a few years, while ensuring that transfers pursuant to the pre-existing contracts will not alter the military balance in the region or compromise the ability of the United States and our allies to protect our mutual interests.

Resolving this issue allowed us to support Russia's participation in September 1995 negotiations to establish the successor regime to COCOM, the Wassenaar Arrangement. In July 1996, Russia joined the United States and 31 other countries in giving final approval to the establishment of the new regime and assuming the same responsibilities as other members in ensuring transparency, responsibility, and restraint in the transfer of arms and sensitive dual-use goods and technologies.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Russia continues to address its many environmental problems, but progress has been complicated largely by Russia's evolving governmental structures and continuing economic difficulties. Even while grappling with a wide variety of funding difficulties, the Russian Government has continued to support international environmental initiatives at both the highest and working levels.

During the July 1996 meeting of the U.S.-Russian Joint Commission on Economic and Technological Cooperation (commonly called the Gore-Chernomyrdin Commission), Vice President Gore and Prime Minister Chernomyrdin signed two new statements supporting environmental activities: an agreement on joint projects to reduce greenhouse gas emissions by deploying more climate-friendly technologies in support of the Framework Convention on Climate Change and an approval of further efforts to use data from national security systems for environmental purposes. The GCC Environment Committee and Climate Policy Group have established a framework for the Russian Government to review, revise, and accept climate change mitigation projects under the U.S. Initiative for Joint Implementation. There are currently three approved projects, which should increase Russia's expertise in environmental implementation, as well as improve avenues for cooperation with U.S. firms in the field.

In 1996, Russia came to terms with its noncompliance with the Montreal Protocol on Substances that Deplete the Ozone Layer. With assistance from the World Bank and the U.S., Russia produced a comprehensive chlorofluorocarbon (CFC) phase-out plan to achieve compliance by 2000. The Russian Government also pledged to match the U.S. contribution to the World Bank's Special Initiative to Phase Out Ozone Depleting Substances in Russia.

The Russian State Committee for Environmental Protection has again reduced the country's quota for CFC consumption. The State Committee has set consumption for 1997 at 20,000 metric tons, half of its 1996 allotment. Customs regulations were revised in 1996 to assist in stopping illegal CFC exports.

Environmental security in the Arctic has been another priority for Russia. The Russian Minister of Defense in September signed an accord with the United States and Norway to address environmental dangers caused by military activities in the Arctic. Initiatives under this accord, known as Arctic Military Environmental Cooperation, initially are focused on disposal of radioactive wastes and pollution from non-radioactive toxins.

As part of another Arctic environmental initiative, in September Russia, the United States, and six other Arctic nations signed a declaration establishing the Arctic Council, which will serve as a high-level policy forum to address non-military issues of common concern, particularly those related to environmental protection and sustainable development of Arctic resources.

Russia also has shown intermittent progress in resolving one of the more troublesome political issues surrounding Arctic environmental affairs: the arrest of Alexander Nikitin. After 10 months detention on espionage charges for

publicizing the Russian military's environmental damage in the far North, Nikitin was released by the Federal Security Service on December 14. Because the charges were not dropped, the United States continues to press for Russia to drop the charges against Nikitin as well as its opposition to his sponsoring Norwegian environmental group, Bellona.

The role of other environmental non-governmental organizations, however, has continued to grow in Russia. Representatives of several NGOs flooded the Government Duma with art exhibits and testimony during parliamentary hearings on protected areas management. Similarly, managers of conservation centers and other regional officials have been able to bring their cases to the Duma's attention.

Private citizens also have been able to contribute to environmental policy in Russia. For example, in December, residents of the Kostroma region overwhelmingly voted against resuming construction of a nuclear power plant there. The ballot occurred as a result of a signature-gathering drive, which forced nuclear officials to campaign on behalf of resuming construction. Such actions were facilitated by a November 1995 law that formalized public participation in the environmental impact assessment process.

To promote sustainable use of natural resources, Russia has been seeking to revise its forest code. Russia has preserved a quarter of its original forests, and the new code seeks to balance ecological and habitat conservation with regional economic needs. Similarly, the United States has been working with Russia to revise not only this code but also to enact polluter-pays and other legislation to create a system of penalties for harming the environment.

As part of efforts to preserve species and biological diversity, Russia has taken measures to strengthen enforcement of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Russian customs and environmental officials maintain anti-poaching brigades in the Far East and have visited the United States to exchange views on strategies to stem poaching and illegal trade in endangered species.

Russia also has worked with U.S. agencies to protect habitat for the Amur tiger, which has helped increase its population, as well as for migratory birds, marine mammals, and other species. Similarly, Russia maintains good relations with CITES management authorities in Tajikistan, Kyrgyzstan, Kazakstan, and Turkmenistan, and has provided leadership and guidance. Strong support from the vice-governors of two regions on Russia's Pacific rim has led to cooperative, transparent land management planning across a wide coastal region larger than California. Russian and American experts also have worked jointly to protect the Lake Baikal ecosystem.

One action, however, has had at least the appearance of a setback for the environment in Russia. In August, Moscow downgraded the Ministry of the Environment to a State Committee. Although Russian officials have said that this was an administrative change and not one affecting their Government's commitment to the environment, the United States continues to promote the position that environmental issues deserve priority treatment in Russia and elsewhere.

In short, as in most other sectors, Russian environmental policies are marked by some inconsistencies and partial retrenchments. But, the overall thrust in recent years has been positive. U.S. assistance together with that of other international sources, such as the World Bank, has helped reinforce the notion that environmental progress and economic growth go hand in hand.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Russia does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism. The U.S. began conducting regular counter-terrorism consultations with Russia in June 1994, and in late October of 1994 initiated dialogues on cooperation to counter nuclear terrorism. In 1995, Russia joined the existing G-7 counter-terrorism experts consultative structure.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility.

In April 1993, Russia and the official creditors of the former Soviet Union reached agreement on a rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian government which acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993.

Russia and its official bilateral creditors have reached a series of debt rescheduling agreements in support of Russia's IMF programs. On June 4, 1994 Russia and the "Paris Club" official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. On June 3, 1995, the official creditors agreed to reschedule some seven billion dollars of Russian debt payments falling due during the year. A bilateral agreement with the United States implementing the June 1995 accord was signed October 9, 1995. In April 1996, Russia and its Paris Club creditors agreed to reschedule 40 billion dollars of payments falling due in 1996-1999, and some payments coming due after 1999. The 1996 rescheduling included a reprofiling of a portion of the stock of debt rescheduled in 1993. The U.S. share of this official debt was slightly less than \$2.3 billion. Repayment was scheduled over a 25 year period, including a grace period of approximately four years. The April 1996 Paris Club arrangement states that Russia had informed the participating creditor countries that "zero option" agreements had been signed by Russia and each other NIS; the creditors "took note" that copies of these agreements had been provided.

In April 1996 Russia also reached agreement in principle with the "London Club" of commercial creditors for the rescheduling of about \$30 billion in commercial debt. Finalization of the agreement will probably occur during the first quarter of 1997. Principal of approximately \$25 billion and the majority of past due interest will be spread over payback periods of 25 and 20 years respectively. Repayment of each category of debt was scheduled to begin after completion of a seven year grace period. In these negotiations, Russia sought to restructure amounts owed banks not insured by official guarantees, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs who may have been taken to the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POW/MIAs, which was established by the Presidents of Russia and the United States in January 1992. President Yeltsin and the late General Volkogonov, former head of the Russian side of the Commission, pledged their full cooperation. President Yeltsin has directed all relevant Russian ministries to cooperate fully with the Commission. Until his death in December 1995, General Volkogonov oversaw a thorough and professional research effort conducted by Russian archivists in search of information on missing American servicemen. He also arranged for the U.S. side of the Commission to travel across Russia in order to interview Russian citizens and conduct research in regional archives. The Russian side of the Commission is now headed by General-Major Vladimir Zolotaryev, who was appointed in March 1996. This level of U.S.-Russian cooperation on POWs/MIAs is unprecedented.

At the same time, lower-level Russian security officials have not always cooperated fully with Commission requests.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

Russo-Cuban ties have changed dramatically since the end of the Cold War. In 1991, Moscow ended its 4 billion dollar a year subsidy of the Cuban economy. In 1992, Russia halted construction of the Juragua nuclear power plant near Cienfuegos, Cuba (construction work remains suspended). Russia does maintain a credit line for mothballing parts of the facility completed before suspension. In 1993, Russia withdrew its last remaining combat troops from Cuba. Russian officials continue to assure us that Russia is not providing assistance to Cuba, and that all trade is conducted on a commercial basis. Russia continues to operate a signal intelligence facility at Lourdes.

The two remaining significant aspects of Russian-Cuban economic interaction are the oil-for-sugar barter arrangement and possible Russian provision of assistance and credits to Cuba for use of the Lourdes signal intelligence facility. The oil-for-sugar barter is basically an agreement to exchange Cuban sugar for Russian oil, with the quantities apparently pegged to market values for each commodity. In May 1995, Russia and Cuba signed a 1995-96 trade protocol under which Russia would reportedly exchange 3 million tons of oil for 1 million tons of Cuban sugar. In an October 1995 visit to Cuba, Russian Deputy Prime Minister Soskovets signed a three year barter agreement with his Cuban hosts which would reportedly exchange 9.5 to 10 million tons of Russian oil for 4 to 4.75 million tons of Cuban sugar in 1996-98.

The other major aspect of Russian-Cuban economic interaction is the Russian use of the signals intelligence facility at Lourdes. We have received reports that the Russian Federation issued two decrees in March and December 1996 which authorized shipments totaling 3 million tons of oil to Cuba as compensation for the use of the Lourdes intelligence facility. These reports are currently under review.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

RUSSIA

Section 498A(b)(1): Has the President determined that the Government of Russia has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. Although the protection of human rights remains unevenly implemented in some areas (as discussed above), in particular in the conduct of the war in Chechnya, we do not believe that the Government of Russia is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Russia “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. The Government of Russia has taken many constructive steps in this area (as discussed above).

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Russia “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

Russia joined the partnership of the MTCR in August 1995. As a full member of this regime, Russia is participating in all consultations -- including the Bonn plenary in October 1995, at which Russian representatives made a number of potentially valuable suggestions about how to limit proliferation of missile technologies to countries of concern. Russia is a Party to the NPT and BWC and a CWC signatory, and the Russian Government has demonstrated a firm commitment to the non-proliferation of weapons of mass destruction. There was no termination of assistance to Russia during the reporting year under section 498A(b)(3). Additional information related to implementation of this section, however, has previously been provided to Congress on a classified basis.

Section 498A(b)(4): Is the Government of Russia “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. The Government of Russia is not prohibited from receiving assistance under these sections.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Russia "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Russia under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination with that 30-day period?"

No. The Government of Russia is not prohibited from receiving assistance under these sections.

Section 498A(b)(6): Has the Government of Russia "failed to make significant progress on the removal of Russian or Commonwealth of Independent States troops from Estonia, Latvia, and Lithuania" or "failed to undertake good faith efforts, such as negotiations, to end other military practices that violate the sovereignty of the Baltic states"?

No. The process of Russian troop withdrawal from Lithuania was completed in 1993. In 1994, Russia completed bilateral negotiations with Latvia and Estonia to reach agreements on timetables for removal of the last Russian forces in these countries. Except for a small number of Russian technicians who remained behind under these agreements (and who will be withdrawn soon), all Russian active duty troops departed Latvia and Estonia by August 31, 1994.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

TAJIKISTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

The Government of Tajikistan made limited progress toward democratization in 1996. The government remains dominated by President Rahmonov and his fellow Tajiks from the Kulyab region who were victorious in the 1992 civil war. However, President Rahmonov somewhat expanded regional representation in 1996 by appointing several non-Kulyabis to key government posts. Most opposition political activity is banned and many government opponents are either jailed, in exile, or active in the armed opposition based in Northern Afghanistan and conducting a low-intensity insurgency against the current government. Although three opposition parties and a branch of a fourth affiliated with the armed opposition remain suspended since 1993, seven political parties are now officially registered, including one new party allowed to register in 1996. Four of these parties nominated and elected candidates in Tajikistan’s first-ever multi-party parliamentary election in February 1995. The suspended opposition parties boycotted the election, which was marked by incidents of fraud and voter intimidation. Freedom of expression and freedom of the press continue to be severely restricted, as the government controls both press and broadcast facilities. Nonetheless, there were some improvements regarding freedom of speech and press as several new, semi-independent publications appeared. The violence against journalists which flared during the civil war, has largely abated. Freedom of assembly is limited, although several large protest demonstrations took place in 1996. The rule of law is applied unevenly at best.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

The civil war severely damaged Tajikistan’s economic infrastructure, causing both industrial and agricultural production to fall sharply. Preoccupied with the civil conflict, until recently the Tajik Government devoted little attention to economic reform. However, in 1995-96, the government implemented several notable economic reform measures. In May, 1995 the government introduced its own national currency, the Tajik ruble. On the advice of the International Monetary Fund (IMF), it subsequently liberalized the price of bread and flour and began to phase-out the state order system for cotton, one of Tajikistan’s two major exports, along with aluminum. In 1996 production of both cotton and aluminum decreased, factors which will further weaken the country’s ability to earn foreign currency. In 1996 the government introduced measures designed to increase private agricultural production, and authorities have already found that under private cultivation the land produces far more than when run by state collectives.

Much needs to be done to advance Tajikistan’s transition to a market economy. Privatization has begun in small retail facilities, but has yet to begin in earnest in the larger trade and distribution facilities. Accordingly, most property and almost all major economic concerns remain under the control of the state. The high inflation of 1995 that followed the introduction of the new currency has slowed dramatically in 1996 thanks to adherence to IMF recommendations. The government is chronically behind in paying salaries and pensions. Nonetheless, the reform undertaken to date has attracted the attention of the IMF, which established a mission in Dushanbe and has approved a first credit tranche. In May 1996, the IMF approved a \$22 million loan to support Tajikistan’s economic reform program through the end of 1996. The IMF loan is intended to support Government efforts to reduce monthly inflation, build up international reserves, and slow the decline in output and real income. In September 1996, the World Bank concluded a \$50 million loan agreement with Tajikistan.

Tajikistan is a member of the IMF, IBRD and EBRD. A bilateral trade agreement was signed and ratified in 1993. MFN status was granted in November 1993. An OPIC agreement entered into force in 1992.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

The ongoing civil conflict continued to spawn serious human rights violations by both the government and the armed opposition. A general cease-fire between the two sides, in effect since 1994, significantly reduced the level of political violence, although the ceasefire was repeatedly violated by both sides. In late 1996 these violations escalated beyond border skirmishes into more general

confrontations between Government and opposition forces. A significant number of extra-judicial killings took place, though the unstable situation made assignment of blame impossible. Some killings were probably committed by government forces, some by the opposition, and some by independent warlords. Several prominent figures were killed in such unresolved killings. Several Russian army officers and members of their family were killed during the year, though these individuals were targeted not for their ethnicity, but their role in the armed forces. The government rarely prosecutes security officials believed responsible for human rights abuses, though in some cases such officials have been reprimanded and/or transferred to other areas.

The Government cooperated with the United Nations High Commissioner for Refugees (UNHCR) in the repatriation of Tajik refugees from Afghanistan, and the majority of refugees have returned to their homes. It also worked with the UNHCR, the International Organization for Migration, and the International Committee of the Red Cross to facilitate the return of remaining internally-displaced persons from eastern Gorno-Badakhshan Oblast (Region), though this effort was hampered by spotty cooperation by security forces guarding the return route. Repatriation of the remaining refugees in Afghanistan is hindered by the leaders of the armed opposition in exile who sometimes force families seeking to return home to remain in the camps.

Retribution against returnees by local militias was not as widespread as originally feared, and the government has made efforts to resolve the cases of returnees whose homes have been occupied during their absence. Persons from Kulyab continue to be favored over those from other ethnic groups and some harassment of those from the opposition-stronghold areas of Gharm and Pamir continues. Linguistic and employment discrimination against the Russian minority as well as fear about the future led to significant out-migration of this group in recent years. This trend has slowed significantly after the situation has stabilized somewhat, and many of those with family in Russia have already left. Emigration will likely be further slowed by a 1996 agreement with Russia permitting dual citizenship.

According to the Constitution, church and state are separate in Tajikistan. Religious freedom is guaranteed by law. While Islam is the majority religion, minority religions enjoy both government and individual tolerance. There are no reports of official discrimination against religious minorities. The Russian Orthodox Church and a Jewish synagogue do function in Dushanbe.

Tajikistan has no law on emigration. Nationals who wish to travel abroad must obtain an exit visa, but there is no evidence that these are being withheld for political reasons. Those wishing to emigrate must notify the appropriate authorities and obtain required documentation. Those who fled Tajikistan for political reasons after the civil war are sometimes blocked from returning, or are fearful about doing so.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

The Government of Tajikistan has made a public commitment to respect the observance of international legal obligations and OSCE commitments. It has cooperated with the OSCE mission in Dushanbe on matters related to electoral law, human rights monitoring, and efforts toward a political settlement to the conflict. The OSCE mission in Tajikistan was expanded in 1995 to take on human rights monitoring functions previously carried out by the UNHCR, and continued its work in this field in 1996.

Tajikistan has outstanding border disputes with Kyrgyzstan and China, but neither has erupted into armed conflict. Given the current state of civil disorder and the extent to which Tajikistan’s nascent military is tied up fighting the opposition, Tajikistan has neither the capacity nor the apparent intent to pursue aggressive actions against any of its neighbors. Tajikistan has been an active participant in regional dialogues and cooperative peacemaking efforts.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

The Government of Tajikistan has welcomed international efforts to seek a peaceful resolution of the ongoing Tajik civil conflict. In 1996 the government continued to participate in formal rounds of UN-mediated peace talks with the Tajik opposition that began in 1994. In addition, President Rahmonov met with opposition leader Nuri to discuss issues related to the peace talks. At year’s end, the two sides were making progress towards a final

resolution, but continued fighting in the field despite the signature of ceasefire agreements left many doubting the value of written agreements between the two sides.

The Tajik conflict is primarily a regional and clan-based struggle. Although ethnic Uzbeks were involved in the civil war and fought in support of the government side against the opposition, the ethnic question was not an aspect of the war. Instead it allowed sub-ethnic regional identities among Tajiks to take on an almost ethnic quality, as discrimination against Tajiks from other regions such as Garm and the Pamir region took place.

Section 498A(a)(6): “implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”**

Tajikistan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Tajikistan is a signatory to the NPT and supported indefinite extension of the Treaty at the NPT Review Conference in 1995. Tajikistan’s fledgling military forces do not represent an offensive threat to neighboring states. There is no evidence suggesting Tajikistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Tajikistan has ratified the multilateral Chemical Weapons Convention. It is not known to have participated in any significant level of conventional arms transfers. The border with Afghanistan is porous and cross-border arms transfers may have occurred.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

Tajikistan’s efforts to protect its environment remain overshadowed by its political problems. The U.S. Geological Survey has cooperated with Tajikistan in the past on a program of earthquake monitoring. The Government has committed to regional cooperation on Aral Sea problems and is a member of the Interstate Council for the Aral Sea. Tajikistan has introduced a limited program of water pricing which has decreased consumption, and is working to modify legislation to promote environmentally-sound policies. .

Section 498A(a)(8): “deny support for acts of international terrorism.”

The Government of Tajikistan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Tajikistan signed both the October and December 1991 agreements. The December 1991 agreement provided that Tajikistan’s share of the FSU debt would be 0.82 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In October 1993, Tajikistan signed a "zero option" agreement with Russia under which Russia will pay Tajikistan’s share of the debt, in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs which was established in January 1992. The U.S. side of the Commission visited Tajikistan in September 1996. The visit was positive and indicated American interest. Requests for information were broadcast on local television, but there is no indication that any American POWs are in Tajikistan.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Tajikistan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

TAJIKISTAN

Section 498A(b)(1): Has the President determined that the Government of Tajikistan has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. While there have been serious shortcomings in human rights observances in Tajikistan (as discussed above), the Government has taken efforts to address some aspects of the situation. In some areas, especially political violence, abuses have decreased. Many of the shortcomings result from the government’s lack of control over armed warlords, and not from government policy.

Section 498A(b)(2): Has the President determined that the Government of Tajikistan “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. The Government of Tajikistan has not taken actions to block effective implementation of arms control obligations.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Tajikistan “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. There is no evidence indicating that the Government of Tajikistan has made such transfers.

Section 498A(b)(4): Is the Government of Tajikistan “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”?

No. The Government of Tajikistan is not prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Tajikistan "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Tajikistan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

The United States Government is not aware of the Government of Tajikistan providing assistance for, or engaging in any nonmarket based trade with the Cuban government.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

TURKMENISTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

Turkmenistan made little progress in 1995 in moving toward a democratic system of government. The country remains a one-party state dominated by President Saparmurad Niyazov and his closest advisors. The President has continually emphasized stability over political reform. There were no elections in 1995. In 1994, a referendum of questionable constitutionality extended President Niyazov’s term of office until 2002. Parliamentary elections held in 1994 were largely a formality with opposition parties banned; only government-approved candidates were permitted to run for this largely powerless body.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

The Government of Turkmenistan has taken a slow approach to economic reform. (On December 27, 1995, President Niyazov announced a major series of macro-economics reforms, which cover, inter alia, the three key reforms recommended by the IMF: control of the expansion of credit, limited national budget deficits and liberalized foreign exchange. Successful implementation remains uncertain.) President Niyazov plans a ten-year state-managed transition and hopes to utilize hard currency earnings from Turkmenistan’s natural resources to finance expenditures and soften the impact of the economic transition. There is no IMF standby program in place, but the Government of Turkmenistan improved its management of the national budget and relaxed foreign exchange controls. The economy, however, remained predominantly under state control. Turkmenistan could accelerate the pace of reform by broadening privatization efforts and opening the sectors of oil, gas, minerals and most agriculture, which have been reserved for state ownership and control.

A series of laws on foreign investment, banking, property ownership and intellectual property rights were passed in 1992 as incentives for foreign investors. However, the export system is complicated by licensing and currency surrender requirements. In September 1992, President Niyazov signed a law which protects intellectual property rights. Turkmenistan introduced its own currency, the manat, in November 1993, which has helped it establish an independent monetary policy. A bilateral trade agreement providing for reciprocal MFN and containing IPR (intellectual property rights) provisions entered into force October 1993. The OPIC agreement entered into force in June 1992. Further discussions are needed on the bilateral investment treaty and treaty to avoid double taxation before finalization. Turkmenistan is a member of the IMF, EBRD, and IBRD.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

The Government of Turkmenistan’s record on recognition of internationally recognized human rights is poor. It has largely avoided abuses against the integrity of the person (extra-judicial killing, systematic torture), but the authorities routinely beat criminal suspects, prisoners, and witnesses before and after trial. The government severely restricts civil and political rights and security agents have used force to suppress political opposition. At least 80 participants in a peaceful, July 1995 demonstration in the capital, Ashgabat, were arrested on highly questionable drugs and drunkenness charges. The Government tolerates virtually no political opposition and completely controls the media, censoring all newspapers and rarely permitting criticism of government policy or

officials. The Government has attempted to extradite Turkmen dissidents from Uzbekistan and Russia on charges that appear politically motivated. As part of its efforts to foster a sense of nationhood among the Turkmen, the Government has reversed decades of favoritism toward Russians. Ethnic Turkmen now receive favored treatment, leading ethnic minorities to complain of discrimination, especially in employment practices.

The Constitution guarantees freedom of religion and does not establish a state religion. State harassment of religious groups has ended, and religious freedom is generally respected. Religious congregations are technically required to register with the government, but there are no reports that the government prevented those that have not complied from practicing their faith. There were no reports that attempts to register religious groups were denied.

The government does not generally restrict movement within Turkmenistan, although travel to border zones is tightly controlled. The Government uses its power to issue passports and exit visas as a means of restricting international travel for its critics. Travel outside the former Soviet Union requires an exit visa. Most citizens of Turkmenistan are permitted to emigrate without undue restriction.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

The Government of Turkmenistan claims to respect the observance of international legal obligations and OSCE commitments in the area of human rights. It hosted a September 1995 OSCE Seminar on drafting human rights legislation, but has yet to put OSCE human rights obligations and commitments into practice. House arrests, limitations on freedom of expression, harassment of political opposition, and prevention of contacts with visiting foreigners occur in clear violation of the Helsinki Final Act and the Charter of Paris.

Turkmenistan is at peace with its neighbors. The Turkmen military does not currently present an offensive threat to the region. Turkmenistan has been active in regional dialogues and cooperative efforts to settle outstanding disputes peacefully. Turkmenistan has been complying with CSBM (Confidence and Security Building Measures) provisions by submitting CSBM declarations and undergoing an inspection in November.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

Turkmenistan supports regional and international efforts to resolve peacefully the conflicts in Tajikistan and Afghanistan. It played a key role in bringing the warring parties in Tajikistan to Turkmenistan for the current round of peace talks, at which Turkmenistan is actively engaged. Turkmenistan has been spared the ethnic turmoil that has afflicted other parts of the former Soviet Union.

Section 498A(a)(6): “implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies;**
- and (D) restraining conventional weapons transfers.”**

Turkmenistan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Turkmenistan acceded to the Non-Proliferation Treaty in 1994. Russia and Turkmenistan terminated their key bilateral military agreement in 1995, leaving a reduced Russian military presence in Turkmenistan. Turkmen armed forces are guided by a defensive military doctrine. We do not believe that Turkmenistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technologies. Turkmenistan is a signatory to the multilateral Chemical Weapons Convention. To our knowledge, Turkmenistan has not engaged in any significant level of conventional arms transfers.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

Although Turkmenistan has the best developed system of nature preserves in Central Asia, its Karakum Canal contributes to the region's most serious environmental problems, notably in the Aral Sea, by exacerbating existing water pollution, pesticide run-off, and water-table problems. (These problems date from the Soviet era.) In August 1995, Turkmenistan hosted a meeting of the Interstate council on the Aral Sea. Representatives of the five Central Asian republics and several international organizations agreed then to base the new council secretariat in Turkmenistan's capital, Ashgabat. A USAID-funded water treatment and dispensing plant officially opened in August 1995 near Dashhowuz.

Turkmenistan is currently engaged in talks with Russia, Azerbaijan, Kazakstan and Iran on environmental protection of the Caspian Sea. These marine environmental protection talks will include discussion of development of the mineral resources of the Caspian seabed and use of the sturgeon population in a way that protects the Caspian ecosystem.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Turkmenistan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Turkmenistan signed the October but not the December 1991 agreements. The December 1991 agreement provided that Turkmenistan's share of the FSU debt would be 0.70 percent. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility. In July 1992, Turkmenistan signed a "zero option" agreement with Russia under which Russia will pay Turkmenistan's share of the debt in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs which was established in January 1992. In November 1995 the Commission visited Turkmenistan, where it was warmly received by, and received full cooperation from, the Government of Turkmenistan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

We have no evidence to indicate that the Government of Turkmenistan is providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

TURKMENISTAN

Section 498A(b)(1): Has the President determined that the Government of Turkmenistan has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. Nonetheless, the U.S. Government is deeply concerned about the serious violations of human rights discussed above and will continue to make human rights issues a central element of our dialogue with the Government of Turkmenistan.

Section 498A(b)(2): Has the President determined that the Government of Turkmenistan “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. We do not believe that the Government of Turkmenistan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Turkmenistan “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of Turkmenistan has made such transfers.

Section 498A(b)(4): Is the Government of Turkmenistan “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Turkmenistan is prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Tajikistan "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Tajikistan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

The United States Government is not aware of the Government of Turkmenistan providing assistance for, or engaging in any nonmarket based trade with the Cuban government.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

UKRAINE

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

Ukraine declared its independence from the former Soviet Union in August 1991. The following December the Ukrainian people overwhelmingly confirmed that declaration through a free and fair referendum and elected Leonid Kravchuk President of Ukraine for a five-year term.

The Kravchuk government made slow, but steady progress in building a democratic society. Against the backdrop of a growing economic crisis and political deadlocks between the president and the parliament, in 1993 the Ukrainian parliament voted to hold early parliamentary elections in March 1994, and early presidential elections the following June. The early elections were carried out in a generally free and fair manner, and under international observation. Voters, influenced by new democratic practices and political groups, elected a new parliament dominated largely by leftist factions, though outnumbered by new deputies entering parliamentary ranks without party affiliation. Voters also elected former Prime Minister Leonid Kuchma to the Presidency in a run-off election against incumbent Leonid Kravchuk. This election constituted the first peaceful democratic transfer of executive power in independent Ukraine.

Although Ukraine’s government is a parliamentary democracy with separate executive, judicial, and legislative branches, the country’s young democratic institutions still have some distance to go before a rule of law tradition becomes firmly rooted. Since 1991, democratic reforms have been responsible for protection of many individual freedoms, adoption of a multiparty system, legislative guarantees of basic civil and political rights for ethnic minorities and a peaceful democratic transfer of executive power.

The new Ukrainian constitution, which was adopted on June 28, 1996, declares that "human rights and liberties and their guarantees determine the essence and direction of the activities of the state." It establishes shared governance between a directly elected President and a directly elected one-chamber parliament and strengthens the system of checks and balances. The president is authorized to issue decrees on economic issues not yet regulated by law for three years. The constitution mandates an independent judiciary, headed by a Constitutional Court that determines the constitutionality of laws and acts by all branches of government. Under the constitution, all elections shall be by secret ballot and shall be held at regular, established intervals of five years for the presidency and four years for the parliament. Parliament is now drafting implementing legislation.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

Ukraine has made significant progress in creating an economy based on market principles, private ownership and integration into the world economy. President Kuchma’s October 1994 address to the Ukrainian parliament registered a drastic change in economic policy in favor of stabilization and market-based structural reform. The IMF supported the government with \$760 million under a Structural Transformation Facility agreement and subsequently with a \$1.6 billion Stand-by Arrangement, signed in March, 1995. Although the latter was canceled prior to completion, IMF support continued with a \$1.5 billion Stand-by Arrangement approved on May 10, 1996. Ukraine is nearing successful completion of this program. The Fund and the Government of Ukraine are negotiating a \$2.44 billion, three-year Extended Fund Facility under which the Government would implement a more aggressive reform program designed to stimulate economic growth. In addition, the World Bank has

supported Ukraine with more than \$1.2 billion in loans during 1996 for enterprise reform, agricultural reform, coal sector restructuring and an electricity market development project.

Ukraine has succeeded in arresting hyperinflation, unifying and stabilizing the foreign exchange market, substantially liberalizing prices, ending most government subsidies and eliminating export quotas. Inflation fell to 40 percent in 1996, down from 182 percent in 1995. The central bank's restrained monetary policy has been matched by tight fiscal control, although arrears in pensions and salaries have continued to grow. Ukraine introduced a new currency, the hryvnia, on September 2, 1996. The transition was smooth, and the Hryvnia has experienced only moderate depreciation since its introduction. The only constitutional mandate of the central bank is that of maintaining price stability. With a few significant exceptions, imports and exports are unrestricted. In addition, Ukraine is working toward joining the World Trade Organization at the earliest possible opportunity. Exports were up 15 percent in the first half of 1996, and imports, up 33 percent, reflecting higher prices for imported gas.

With inflation under control, the Kuchma administration's chief challenge in economic policy is to put Ukraine firmly on the path to economic growth. Production declined about 9 percent in 1996; the government is forecasting an increase of 3 percent in 1997. The government's economic program for 1997 would implement a much-needed tax reform, reducing payroll tax rates from 52 to 33 percent and other taxes as well. This reform will be financed to some extent by eliminating tax exemptions and establishing a new enterprise property tax. Substantial deregulation of the business environment is to accompany the tax measures. Privatization has been proceeding at an accelerated rate. More than 3,500 medium-and-large scale enterprises had been privatized through the end of September; small-scale privatization should be completed by the end of 1996. Problems persist in the area of investment, primarily related to widespread corruption, arbitrary government actions and the lack of unambiguous property laws. Ukraine is taking action to redress this situation. The constitution guarantees the inviolability of private property and the legal equality of all forms of ownership.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Ukraine continues to make progress in the area of human rights. There are no political prisoners. A few reported abductions and killings have been investigated for possible political motivations, but it appears that these were instances of politically active individuals falling prey to organized crime. Minority rights are generally respected in accordance with a November 1991 law which guarantees persons belonging to ethnic minority groups the right of access to schools and cultural facilities and the use of their respective languages in business and official correspondence. There are isolated cases of ethnic discrimination. For example, Jewish memorials have been defaced and anti-Semitic tracts disseminated in western Ukraine, for which the government has been criticized in some quarters for insufficient response. In Crimea, Ukrainian and Crimean Tatar minorities complain of discrimination by the Russian majority. Ukrainians who wish to travel abroad are able to do so freely. Exit visas are not required. The government can deny passports to individuals with access to state secrets, but this is rarely done and can be appealed.

While there are some problem areas in Ukraine's human rights performance, government efforts to address these problems proceed. The government has not interfered with the registration of minority religions and has allowed the opening of seminaries and Jewish religious schools. Although freedom of speech and of press is hampered by Soviet-era self-censorship practices and a state monopoly on most newsprint, a 1991 law protects these freedoms, and criticism of the government is vigorous and tolerated. There continues to be inadequate legal protection against searches of homes without warrants and surveillance of individuals and communications. However, human rights observers report receiving no complaints of invasion of privacy.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Ukraine has adhered to obligations under the Helsinki Final Act and the Charter of Paris, and respected international law. Ukraine has made no territorial claims on other states and is working to resolve continuing

differences with Romania over their common border. In addition, Ukraine has sought and continues to seek the advice and counsel of the OSCE in resolving peacefully outstanding political differences with Crimea.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

Ukraine has played a constructive role in the search for a peaceful resolution of the separatist dispute in neighboring Moldova by participating in multilateral talks and by attempting to interdict arms shipments into the disputed zone. The Ukrainian government also is working to resolve peacefully a highly politicized border question with Romania. A battalion of Ukrainian peacekeeping forces has been serving with the UNPROFOR mission in Bosnia and has suffered many casualties in performance of its duties. Ukraine has continued to make its peacekeeping forces available to IFOR. Ukraine has also contributed to the UN peacekeeping mission in Eastern Slavonia. Within its own borders, Ukraine has fostered peaceful resolution of political differences with Crimea by inviting and encouraging the active participation of the OSCE in evaluating the situation and making recommendations; and the new constitution grants a certain degree of autonomy to Crimea. Ukraine also has made clear efforts to guarantee rights of persons belonging to minorities and has been free of widespread ethnic conflict.

Section 498A(a)(6): “implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies;**
- and (D) restraining conventional weapons transfers.”**

Not long after the 1994 elections which brought in both a new parliament (Rada) and a new President, the Rada voted in November of that year to accede to the Nuclear Nonproliferation Treaty (NPT) as a non-nuclear weapons state. Ukraine deposited its instrument of accession for the NPT and exchanged instruments of ratification for the START I Treaty on December 5, 1994. Ukraine has been a participant in the Standing Consultative Commission, in discussion and negotiation on Anti-Ballistic Missile (ABM) Treaty succession, as well as on demarcation, or distinguishing between the ABM systems that are limited by the treaty and other ballistic missile defense systems that are not. In addition, Ukraine signed the Comprehensive Nuclear Test Ban Treaty in September, 1996.

Ukraine has continued to meet its obligations under the January 1994 Trilateral Statement on the transfer of nuclear warheads from Ukraine to Russia for dismantlement. In addition, Ukraine agreed in November 1995 to sell 32 SS-19 missiles, 19 Tu-160 Blackjack bombers, 25 Tu-95 Bear bombers and over 300 cruise missiles to Russia. Ukraine participated in meetings to resolve INF and ABM Treaty succession and implementation issues. The last nuclear warhead was removed from Ukrainian territory and transferred to Russia on June 1, 1996. Ukraine is now officially a nuclear weapons-free state.

Ukrainian leaders continue to stress their determination to achieve full implementation of the Conventional Ground Forces in Europe (CFE) Treaty and have put in place an infrastructure to make that a reality. Kiev has met its CFE data and notification requirements. Ukraine has hosted a large number of on-site inspections of its forces, and has been a cooperative partner in CFE implementation. Ukraine has met its CFE reduction liabilities, in some cases using temporary deployments and withdrawal of some equipment, but cannot meet its share of the additional Naval Infantry-associated reduction obligation until the final conclusion of an agreement with Russia on the Black Sea Fleet. Citing economic difficulties, the Government of Ukraine was unable to redeploy some units in order to comply with flank limitations. Instead, Ukraine used temporary deployments and withdrawal of some equipment to meet its obligations nominally. According to Ukrainian 1996 data, while Ukraine is in violation of its declared overall CFE limits in tanks and armored combat vehicles, these excesses are less than the number of disputed items from the former Black Sea Fleet. We expect this problem to be resolved when Russia and Ukraine reach agreement on division of Black Sea Fleet assets.

During the May 1996 CFE Review Conference in Vienna, representatives of the 30 CFE parties approved an agreement which would realign Ukraine's flank zone. Ukraine, along with the other 29 CFE states, made a commitment to be in compliance with this agreement by May, 1999.

Ukrainian Government officials have expressed their intention to comply fully with CFE obligations once the Black Sea Fleet negotiations are completed. Ukraine is participating in both bilateral negotiations and in the Joint Consultative Group in Vienna to resolve this problem. On this basis, we judge that the Government of Ukraine is committed to complying with relevant arms control agreements. Where this commitment has not been fully implemented, e.g., CFE reductions, it remains under our constant review.

Ukraine inherited a military force of over 700,000 personnel from the Soviet Union when it declared independence. It currently numbers about 450,000. Present plans are for Ukraine to reduce the size of this force to approximately 250,000 - 300,000 by the end of the decade. This level is consistent with legitimate defense requirements.

Ukraine has cooperated with efforts to limit proliferation of weapons and technologies of mass destruction. The USG has worked to help Ukraine develop an export control system. Ukraine is a party to the Biological Weapons Convention. Ukraine is an original signatory to the Convention on the Prohibition of the Development, Production, Stockpiling, and Use of Chemical Weapons and their Destruction, and has ratified the Convention on the Prohibition of the Development, Production, and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction. We do not believe that Ukraine has engaged in the proliferation of nuclear, biological, or chemical weapons, or related technology during the reporting period. With respect to missile delivery systems, in May, 1994, Vice President Gore and Deputy Prime Minister Shmarov signed an agreement on the transfer of missile equipment and technology that made Ukraine an adherent to the Missile Technology Control Regime (MTCR) for purposes of U.S. law. The agreement entered into force in November 1994. The U.S. is concerned about reports of Ukrainian entities discussing military technology cooperation with Libya; the U.S. has made these concerns known to Ukrainian officials, who have undertaken an investigation and have reiterated Ukraine's commitments to the MTCR, the Wassenaar Arrangement (of which Ukraine was a charter member, effective July, 1996), and the UN Libya sanctions.

The U.S. has also received reports of possible military cooperation in other areas by Ukrainian entities with Libya and has made these concerns known to the Ukrainian government. We have reviewed such reports under applicable legal provisions and none of the reports have resulted in the imposition of legally mandated sanctions.

While Ukraine does produce some conventional armaments, it has not been a significant exporter of conventional arms. There are indications that Ukraine is seeking to expand the amount of conventional arms exports as a means of revenue enhancement and industrial development, including to countries of concern to the United States. The Government of Ukraine itself reported to us that it transferred six armored vehicles to Sudan. In addition, we are looking into allegations that Ukraine may have transferred tanks to Syria. Both of these transfers appear to trigger provisions of law that prohibit the U.S. Government from providing certain kinds of assistance to governments of countries that provide lethal military equipment to governments that are on the Department of State list of states that support terrorism. We currently are examining the implications of those legal provisions for Ukraine assistance programs.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

Significant environmental problems remain in Ukraine, particularly from the after-effects of Chornobyl and widespread industrial pollution. The U.S. and Ukraine are cooperating on a range of environmental problems under a bilateral cooperation agreement signed in 1992. The Ukrainian Government's capacity to manage regulatory programs remains insufficient to the task as many environmental functions have been decentralized. Nevertheless, environmental consciousness is growing, led by an active green movement.

Ukraine has agreed to close the Chornobyl nuclear power plant by the year 2000, and has signed a Memorandum of Understanding with the G-7 on a comprehensive program to achieve that goal. The U.S. has worked closely with Ukraine and our G-7 partners to support that decision and implement the MOU. The comprehensive program seeks to help Ukraine close Chornobyl safely while undertaking energy sector reforms and power sector investments, including both demand and supply-side measures, needed to ensure that Ukraine's power needs will continue to be met. In 1996, international financial institutions approved three large power sector loans for coal sector restructuring, establishing a new electricity market and rehabilitation of thermal power plants.

The Government of Ukraine has taken some steps to address environmental issues, mainly through the Ministry of Environment and Nuclear Protection. Given the poor economic situation in Ukraine, however, full implementation of a pollution fee system taxing air and water emissions and solid waste disposal has lagged. National environmental NGOs and a national Green Party slowly are gaining access to the policy-making process on environmental issues. Ukraine has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues.

Section 498A(a)(8): “deny support for acts of international terrorism.”

The Government of Ukraine does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In December 1994, Ukraine signed a "zero option" agreement with Russia under which Russia will pay Ukraine's share of the debt in return for its share of the assets. However, Ukraine's Rada has not ratified the agreement. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility.

Please see section 498(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the Joint U.S./Russian Commission on POWs/MIAs which was established in January 1992. The U.S. delegation to the POW/MIA Commission visited Ukraine in December 1992 and August 1993. Ukraine continues to cooperate in the search for evidence on American POWs/MIAs.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

The Government of Ukraine is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

UKRAINE

Section 498A(b)(1): Has the President determined that the Government of Ukraine has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. While problems remain in the observance of certain freedoms (as discussed above), we do not believe that the Government of Ukraine is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Ukraine “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. Ukraine is a party to the START I Treaty and has acceded to the NPT. On January 14, 1994 Ukrainian President Kravchuk signed a trilateral statement with Russia and the United States which has facilitated the early deactivation and transfer of nuclear warheads to Russia for dismantlement.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Ukraine “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not believe that the Government of Ukraine has made such transfers.

Section 498A(b)(4): Is the Government of Ukraine “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Sections 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. We do not have information from which to conclude that the Government of Ukraine is precluded from receiving assistance under these sections.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the government of Ukraine "is providing assistance for, or engaging in nonmarket-based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Ukraine under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

Whatever relatively small levels of trade are going on between Ukraine and Cuba, some of which could be construed as barter, they do not involve terms more favorable than those generally available in applicable markets or for comparable commodities.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

UZBEKISTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President “take into account not only relative need but also the extent to which that independent state is acting to:”

Section 498A(a)(1): “make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections.”

The Uzbekistani government took some constructive steps toward democratic reform. These steps included permitting the opening of offices of foreign broadcasting services and an international human rights organization and registering one domestic human rights organization. In addressing the parliament at the end of August 1996, President Islam Karimov focused on the importance of greater respect for human rights and democratic reforms. However, Karimov and his highly centralized, authoritarian executive branch continued to dominate political life. The government continued to deny registration of independent political parties and severely limited freedom of speech. Although expressly prohibited by the Constitution, press censorship continued. After a former vice president of Uzbekistan spoke critically of the government at an OSCE human rights seminar in Tashkent in September 1996, the government, citing old convictions, evicted him and his extended family from their apartments, a move widely interpreted as harassment. Other critics of the government spoke freely at the seminar with no apparent ill effects.

Section 498A(a)(2): “make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts).”

In 1996 the Government continued to proclaim its commitment to a gradual transition to a market economy. However, retrenchments in financial policy beginning in September marked a slowdown in the pace of open-market reform. Owing to an extra-large flood of state credits into the agriculture sector, inflation, which had been on a steep downward trend compared to 1995, showed signs of accelerating in September beyond the normal year-end pattern. Parallel exchange rates began to diverge sharply from the official rate as well.

The Government continued officially to welcome foreign investment and joint ventures. However, bureaucratic delays in registering companies and securing foreign exchange licenses hampered growth of foreign investment. Privatization remained slow and formal and informal barriers continued to hamper growth of the fledgling private sector. Uzbekistan is a member of the IMF, IBRD, and EBRD. It seeks membership in WTO. Major trade deals, including with EXIM financing, were concluded for the purchase of U.S. commercial airliners and agricultural equipment.

An OPIC agreement entered into force in October 1992 and a trade agreement which includes intellectual property right provisions entered into force in January 1994. The bilateral investment treaty signed in December 1994 continued to await approval by the U.S. Senate. Preliminary discussions on a treaty to avoid double taxation began in 1993, but major tax reform in Uzbekistan will be necessary before negotiations can move forward.

Section 498A(a)(3): “respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration.”

The 1992 law on citizenship and the Constitution prohibit discrimination on the basis of sex, religion, language, or social status, and officially-sanctioned discrimination does not occur.

The government took some constructive steps to improve the human rights situation, including allowing Human Rights Watch, the BBC and Radio Liberty to open offices in Tashkent. President Karimov devoted his keynote address to Parliament in August 1996 to the need to promote political and human rights. He also ordered a large amnesty of prisoners, including some whom international human rights groups had considered political prisoners. However, the government continued to limit freedom of speech and the press, and it remained difficult for citizens to criticize the government publicly. The government rapidly approved registration of one human rights organization but continued to deny registration to independent political parties and other groups potentially critical of the government. Police and the National Security Service abused both dissidents and other citizens, although reported abuses against dissidents decreased sharply. Prison conditions remained poor. Press censorship continued although the Constitution expressly prohibits it. The government restricted the importation of foreign print media.

The Constitution provides for free movement within the country and across its borders. As a result of a reform of regulations in 1995, exit visas are in principle easy to obtain, are valid for a period of two years, and no longer require an invitation from abroad. However, local authorities sometimes withhold passports or visas for political and administrative reasons to prevent persons from making short-term trips abroad, including some individuals selected to participate in official exchange programs. Others allegedly received their passports or exit visas only after paying bribes. Those who leave without an exit visa may be subject to severe penalties upon return.

Most barriers to emigration were lifted before the breakup of the Soviet Union. Although in some instances emigrants are delayed by long waits for passports and exit visas, potential emigrants who can find a host country willing to accept them are able to leave the country. Since independence, a significant number of ethnic Russians, Jews, ethnic Ukrainians, and others have emigrated from the country, although no exact figures are available. By most accounts, this emigration occurred not because of any systematic human rights abuses but rather because of concern that economic and social conditions would decline in Uzbekistan. There now appears to be a slow but steady return of some emigrants, especially from Russia.

Section 498A(a)(4): “respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully.”

Uzbekistan joined the OSCE in January 1992. An OSCE regional office opened in Tashkent in September 1995 and the OSCE held several regional seminars in Uzbekistan on human rights and other subjects related to the Helsinki human dimension. Nevertheless, the Ukrainian Government’s censorship policies and restrictions on free speech are continuing violations of obligations under the Helsinki Final Act and the Charter of Paris made by the Government of Uzbekistan upon joining the OSCE. Uzbekistan continued throughout the reporting period to refrain from the threat or use of force and continued to participate with Kazakhstan and Kyrgyzstan in forming the Central Asian Peacekeeping Battalion.

Section 498A(a)(5): “cooperate in seeking peaceful resolution of ethnic and regional conflicts.”

Uzbekistan supports regional and international efforts to resolve the conflicts in neighboring Tajikistan and Afghanistan. The government of Uzbekistan continued to advocate an international arms embargo on the warring parties in Afghanistan.

In addition to participating with a reduced battalion in a peacekeeping force in Tajikistan, Uzbekistan noted that it provided humanitarian aid to internally displaced persons in Tajikistan and allowed international organizations to stage their support from cities in Uzbekistan. Uzbekistan remained committed to establishing a multi-ethnic national identity.

Section 498A(a)(6): “implement responsible security policies, including:

- (A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;**
- (B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;**
- (C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and (D) restraining conventional weapons transfers.”**

Uzbekistan supports international efforts to eliminate nuclear, chemical and biological weapons and has consistently reiterated its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. It joined the NPT in 1992 as a non-nuclear weapon state. Uzbekistan has developed a national army which consists of some 40,000 soldiers. This level is consistent with legitimate defense requirements. Uzbekistan does not allow forces from any third party, such as the CIS, to guard its borders. We do not believe that Uzbekistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Uzbekistan has ratified both the Convention on the Prohibition on the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (CWC), and the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (BWC). To our knowledge, Uzbekistan has not engaged in any significant level of conventional arms transfers.

Section 498A(a)(7): “take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.”

Uzbekistan and its regional neighbors continue to pursue positive policies in addressing the management of the Aral Sea watershed and related environmental problems. In line with the Nukus Declaration of September 1995, Uzbekistan continued to look for regional approaches to the environmental challenges which all five Central Asian states face. At the end of the reporting period Uzbekistan was preparing to host an OSCE environmental seminar in Tashkent as a follow-on to a similar 1995 seminar.

Uzbekistan continued to suffer severe environmental problems ,including lingering agrochemical pollution, as a result of the cotton monoculture installed during the Soviet era. Serious public health issues continue to present a challenge to Uzbekistan and its neighbors. The Uzbekistani government actively seeks international assistance to deal with these issues. The government’s “Fund for Ecology and Health of Uzbekistan” continued to work to increase the public consciousness and understanding of the environmental problems. Several state committees deal with specific environmental and ecological issues.

Section 498A(a)(8): “deny support for acts of international terrorism.”

Uzbekistan does not grant sanctuary from prosecution to individuals or groups which have committed acts of international terrorism or otherwise support international terrorism.

Section 498A(a)(9): “accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union.”

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Uzbekistan did not sign either the October or the December 1991 agreements. The December 1991 agreement provided that Uzbekistan’s share of the debt would be 3.27 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In July 1992, Uzbekistan signed a “zero option” agreement with Russia under which Russia will pay Uzbekistan’s share of the debt, as defined by the December 1991 agreement, in return for Uzbekistan’s share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): “cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War.”

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs led by Ambassador Malcolm Toon which was established in January 1992. The Government of Uzbekistan has been cooperative with all related interviews conducted in Uzbekistan, and in February hosted a successful visit by the Commission.

Section 498A(a)(11): “terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.”

In 1995 and 1996, Uzbekistan was one of only two countries (Israel was the other) to support the U.S. position on the Cuban embargo by voting against a U.N. General Assembly draft resolution initiated by the Cuban government. In both years Uzbekistan also co-sponsored and voted with the U.S. in favor of a General Assembly draft resolution condemning human rights abuses in Cuba. The Government of Uzbekistan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

UZBEKISTAN

Section 498A(b)(1): Has the President determined that the Government of Uzbekistan has “engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law”?

No. However, the U.S. Government remains concerned about press censorship and the suppression of opposition viewpoints and activity. The U.S. Government will continue to monitor the government of Uzbekistan’s human rights performance, including the status of prisoners which leading international human rights groups have declared to be political prisoners or prisoners of conscience.

Section 498A(b)(2): Has the President determined that the Government of Uzbekistan “has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union”?

No. We do not think that the Government of Uzbekistan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Uzbekistan “knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon”?

No. We do not think that the Government of Uzbekistan has made such transfers.

Section 498A(b)(4): Is the Government of Uzbekistan “prohibited from receiving such assistance by Section 669 or 670 of [the Foreign Assistance] Act or Sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991”? (Section 669 and 670 of the Foreign Assistance Act were repealed in 1994.)

No. The Government of Uzbekistan is not prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Uzbekistan "is providing assistance for, or engaging in nonmarket based trade (as defined in section 498B(k)(3)) with the Cuban government? If so, has the President taken action to withhold assistance from Uzbekistan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

The U.S. Government is unaware of any such nonmarket based trade between the governments of Uzbekistan and Cuba.

V. EVALUATION OF THE USE OF “NOTWITHSTANDING” AUTHORITY

In FY 1996, USAID continued to use the NIS Assistance Program's “notwithstanding” authority to respond to unanticipated needs and to provide assistance to the NIS. While USAID has been careful to limit use of “notwithstanding” authority, this authority has given the program the flexibility to carry out its mission in the unique environment of the NIS.

Below are evaluations of the specific uses of the “notwithstanding” authority during FY 1996.

	<u>DATE</u>	<u>ACTIVITY</u>	<u>AMOUNT</u>
1.	December 18, 1995	Eurasia Foundation	\$98,000

Rationale: “Notwithstanding” authority was exercised to make inapplicable, in part, standard USAID rules with regard to the allowability of the costs of fundraising by the grantee.

The Eurasia Foundation was established to complement U.S. Government assistance to the NIS by providing a rapid-response, flexible, on-the-ground mechanism for making a large number of relatively small grants and program-related investments in support of political and economic reform in the NIS. From the outset of the Foundation's activities, USAID intended that the Foundation would seek other sources of funding, knowing that USAID's time in the NIS would be limited. A provision in the Eurasia Foundation's grant agreement notes the following:

Special Provisions: Private Funds

The Foundation plans to receive other funding from U.S. private sources. USAID's continued funding of this project will be predicated, in part, on the foundation's ability to raise private funds either directly or in support of its programs.

However, the Eurasia Foundation was initially unable to raise other funds because its only source of funds that could be used for such fundraising was the USAID grant, and in accordance with OMB Circular A-122, all costs incurred by a grantee for fundraising are unallowable. Therefore, in 1994, in response to a request from the Foundation, and in recognition that the Foundation was preparing a long-term strategic plan that would examine the issue of fundraising, among other topics, USAID utilized “notwithstanding” authority to approve a waiver of the provisions of OMB Circular A-122 to permit the use of up to \$200,000 from the USAID grant for one year for basic fundraising activities. In granting the waiver, USAID noted that after the long-term strategic plan was approved by the Foundation's Board of Directors, the Foundation's fundraising activities would be better defined and a request would be made to conduct fundraising activities beyond the one-year period.

After reorienting its operations to allow for efficient fundraising in FY 1996 and beyond, the Foundation reported that its fundraising budget had changed to fit projected needs more closely and that it projected the annual cost of fundraising in FY 1996 to be \$235,000. Of this amount, \$137,000 remained unspent from the previously approved \$200,000. Therefore, on December 18, 1995, USAID utilized “notwithstanding” authority to permit the Eurasia Foundation to expend up to \$98,000 in the one year period beginning November 4, 1995 for fundraising activities.

As of the end of FY 1996, the Eurasia Foundation had spent approximately \$200,000 for fundraising activities leveraging a total of \$5.0 million in commitments from private sources for its NIS programs. In FY 1997, the Foundation expects to raise another \$2.6 million—approximately 10 percent of its planned FY 1997 budget and 13 percent of its planned USAID obligation for FY 1997.

	<u>DATE</u>	<u>ACTIVITY</u>	<u>AMOUNT</u>
2.	Throughout FY 1996	Personal Services Contracts	Various

Rationale: “Notwithstanding” authority was exercised throughout the year to waive legislation prohibiting federal agencies from employing individuals under personal services contracts (PSCs) to work in Washington. Since USAID-Washington has substantial management responsibilities for NIS programs, it has been necessary for the Bureau for Europe and the NIS to employ Washington-based PSCs, especially technical specialists, to ensure adequate program management.

