

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

FY 1999 Annual Report

Prepared by the Office of the Coordinator
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 Independent States of the former Soviet Union during Fiscal Year (FY) 1999. In FY 1999, the U.S. Government continued the reorientation of its NIS assistance activities away from central governments towards cooperative efforts emphasizing private sector development, regionally focused programs, exchanges, people-to-people linkages and the development of civil society.

This report summarizes the U.S. Government's contributions to economic and political reform in each of the twelve NIS on a country-by-country basis. It describes the full range of assistance activities through which the U.S. Government is staying engaged in this strategically important region of the world.

Ambassador William B. Taylor, Jr.
Coordinator of U.S. Assistance to the NIS

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I. INTRODUCTION

Fiscal Year (FY) 1999 was a year marked by uneven progress on reform across the New Independent States (NIS) of the former Soviet Union. Developments during much of FY 1999 were affected by the Russian financial crisis of August 1998 and its reverberations throughout the region. While economic events stabilized toward the end of the fiscal year, it became even clearer that transitions across the NIS are going to be long-term processes, and the U.S. Government adjusted its mix of assistance programs accordingly. At the same time, the U.S. Government's overall goals remained the same. Over the last seven years, U.S. Government assistance to the NIS has supported major U.S. policy goals: promoting democratic and market reform; developing constructive diplomatic and economic relationships with the region; and preventing the emergence of new threats to U.S. national security. It remains a central reality that the future course of reform in the Eurasian region will dramatically affect U.S. national security. Market reform, democratic reform, and the secure disposition, reduction, and non-proliferation of the former Soviet arsenal of weapons of mass destruction are obviously in the U.S. national interest. If the NIS countries go down that road, our security will be enhanced. However, if these countries go down a different road, Americans will be less secure. Over the past seven years, the U.S. Government has devoted significant resources to facilitating transition in the NIS—over \$15.46 billion in grants and concessional loans, and over \$18.01 billion in financing.

This report describes the progress made by U.S. Government-funded assistance programs during FY 1999. These programs were focused on the following four areas: (1) promoting democratic institution-building, the rule of law and the establishment of civil society; (2) helping promote market reform; (3) enhancing U.S. security through cooperative threat reduction and nonproliferation efforts; and (4) addressing urgent humanitarian needs.

PROGRESS MADE IN FY 1999

During FY 1999, the Coordinator of U.S. Assistance to the NIS identified two principles to guide the U.S. Government's NIS assistance programs, based on a review of events in the region. First, the U.S. Government needs to strike a balance between programs that promote lasting generational change and those that address immediate threats. Second, the U.S. Government needs to engage selectively on assistance to central governments, based on their willingness to reform. These principles were reflected in practice in a number of ways.

Recognizing the long-term nature of transitions in the NIS, the U.S. Government shifted more resources to grassroots programs such as exchanges, support for non-governmental organizations (NGOs), independent media, Internet access, and small business in FY 1999. As of the end of the fiscal year, the U.S. Government had brought approximately 70,000 NIS citizens to the United States on training and exchange programs, which provided them with valuable skills and contacts with U.S. counterparts. The U.S. Government, together with other donors, provided additional funding to Russian independent media threatened by the August 1998 financial crisis. The U.S. Government supports small business across the NIS, and is taking a "bottom-up" approach to change. In so doing, U.S. Government-funded assistance is steadily promoting the expansion of lasting constituencies for reform.

In FY 1999, the U.S. Government continued to move its assistance programs from capital cities to outlying regions, particularly in Russia. The Regional Initiative (RI) had previously established three centers of assistance activity in that country: Novgorod, Samara and Sakhalin. The U.S. Government recently chose Tomsk as a fourth RI site in Russia. In Kazakhstan, U.S. Government assistance is focused on the Atyrau Region, and in Ukraine, on the Lviv and Kharkiv Regions. The RI is another example of the U.S. Government's focus on promoting grassroots change.

In FY 1999, the U.S. Government also took a number of steps to address immediate threats. One important consequence of the 1998 Russian financial crisis was an increase in the risk of proliferation of weapons of mass destruction. Tens of thousands of former Soviet weapons scientists, unpaid and under-employed, have become targets of opportunity for states of proliferation concern or terrorists, and Russia still has thousands of nuclear weapons and tons of weapons materials that are tempting illicit weapons traffickers. Russia's serious ongoing economic problems, exacerbated by the financial crisis, required the U.S. Government to allocate increased resources to nonproliferation programs in FY 1999. These programs will be greatly expanded in FY 2000 under the multi-agency Expanded Threat Reduction Initiative (ETRI).

The U.S. Government also responded to urgent needs in FY 1999 by implementing programs that had a tangible impact on the lives of those most severely affected by economic hardship. The U.S. Government's sizeable food aid program in Russia is one example, and health programs, such as the U.S. Government's anti-tuberculosis effort in Russia, support for orphans, and the delivery of hospital equipment across the NIS, are also key components of this effort.

In FY 1999, the U.S. Government engaged selectively on assistance to central governments. In practice, this meant distinguishing between countries that had embraced reform and those that continued to resist it. The U.S. Government continued to direct technical assistance towards governments and sectors that were most reform-oriented, and began to cut back more severely in areas where reform was not progressing. For example, the U.S. Government increased funding for land privatization in Moldova and financial-sector reform in Kyrgyzstan, in recognition of those countries' willingness to make tough decisions and implement positive change. On the other hand, the U.S. Government largely cut off its support for agricultural and energy-sector reform in Russia, in recognition of the very limited prospects for these programs to have a significant short- or medium-term impact on developments in those sectors. The U.S. Government also suspended its support to the central election commissions in Kazakhstan and Uzbekistan, in recognition of those governments' failure to commit to holding free and fair elections. Similarly, the limited size of the U.S. assistance programs in Belarus and Turkmenistan reflected those governments' resistance to reform.

The following four sections provide brief assessments of U.S. Government-funded activities in the areas of democratic reform, economic reform, cooperative threat reduction and nonproliferation, and humanitarian assistance in FY 1999.

Democratic Reform Programs

The review of U.S. Government-funded assistance programs in light of the August 1998 Russian financial crisis reinforced the belief that true democratic reform in the NIS will be a long-term, generational process. Over the past few years, the U.S. Government has increased the amount of resources going to assistance programs that promote lasting change in mindsets, attitudes and institutions in the NIS. The U.S. Government has increased funding for exchanges, partnerships, independent media, Internet access, and support for NGOs, particularly in countries where reform is slow, governments continue to exercise strong control and civil society is weakest. These programs engage the next generation of leaders in the NIS, particularly in the regions, and help build an active civil society. Alumni of these programs—mostly young people—share their knowledge and vision with their colleagues, friends and neighbors. Exchanges and partnerships between U.S. and NIS communities, universities, businesses and NGOs have fostered a long-term dialogue between NIS participants and their American counterparts and have opened channels of communication that cannot easily be closed. For example, the Russian Leadership Program, a new exchange program that was initiated by the Librarian of Congress and brought nearly 2,000 regional leaders to the United States in FY 1999, reflects the broad U.S. consensus that exchange programs are an important tool for promoting democracy and changing mindsets in the NIS.

FY 1999 brought notable examples of progress in democratic reform, as well as significant setbacks. In the wake of the Russian financial crisis, there was concern that a sudden lack of advertising revenue would force Russia's independent media either to fold completely or to fall increasingly under the influence of particular political groups. The U.S. Government worked with private foundations and foreign donors to help sustain Russia's independent media, chiefly in the regions. The focus of this expanded media assistance subsequently shifted to training on how to continue operations in a depressed market and other measures to ensure that strong media organizations will continue to operate in Russia. The impact of the Russian financial crisis on NGOs turned out to be smaller than had been feared. While many NGOs lost money in failed banks, most were so accustomed to operating on shoestring budgets that they managed to overcome their cash-flow problems. In some countries, NGOs faced additional hurdles such as new government-imposed registration procedures and harassment by tax authorities. Nevertheless, the number of active NGOs continued to increase throughout the region in FY 1999. There were more and more cases of NGOs organizing to present their views to the government in a unified manner. In some countries, national or local governments even turned to NGOs for advice on particular issues or for assistance in providing social services.

In FY 1999, elections were held in a number of countries, albeit with mixed success. Parliamentary elections in Armenia showed a marked improvement over previous years, but in Kazakhstan, President Nazarbayev moved the elections up by several months and barred serious opposition candidates, effectively determining the outcome of the elections. On the other hand, Georgia's local elections were generally perceived to be free and fair and introduced locally chosen representation to the regions for the first time in Georgia's history.

Providing access to multiple sources of information continued to be a top priority of U.S. Government-funded democracy programs, which provided support to print and broadcast media throughout the NIS. In particular, the U.S. Government monitored the status of independent media in countries with elections in FY 1999 and expressed its concerns to the Governments of Ukraine, Kazakhstan and Azerbaijan about attempts to manipulate the press and inhibit balanced coverage of candidates and the issues. The U.S. Government increased its support for the beleaguered independent media in Belarus,

which has continued to struggle to inform the public of alternative views, despite increased harassment by the government. The U.S. Government also expanded its Internet access and training programs, which have established public-access Internet sites throughout the NIS, and kept a close watch on NIS governments' attempts to monitor and censor Internet communications.

Fighting crime and corruption, so as to restore public faith in NIS political systems and promote economic growth, was also an integral component of U.S. Government-funded assistance efforts in FY 1999. The Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS) and other participating U.S. law enforcement agencies reported that cooperation under the auspices of assistance programs helped them to prosecute criminal cases in the United States and also enhanced criminal investigations in the NIS. The U.S. Government developed strategies to address corruption across the region, but found that it can only work with governments that have the will to tackle this problem, such as in Georgia, where this issue is one of the highest assistance priorities. In other NIS countries, the U.S. Government has approached the issue by working to mobilize popular support for change, especially in reformist regions, and demonstrate that it is possible to achieve results under the rule of law, pursuing cases through local institutions. Support to NGOs to enable them to provide legal counseling, disseminate information on how to use the legal system, and publicize successful efforts to combat corruption was also a key component of the U.S. Government's efforts in this area.

Economic Reform Programs

The review of U.S. Government assistance in the aftermath of Russia's August 1998 financial crisis also yielded several findings relevant to the future direction of the U.S. Government's economic reform programs in the NIS. First, assistance to central governments on structural reform had reached a dead end in several countries where political will was lacking. Second, regional initiatives begun in FY 1997-98 in Russia, Kazakhstan and Ukraine were beginning to demonstrate that assistance at the local level can achieve tangible, positive results, and can do so in a way that encourages replication by other regions. Finally, the ebbs and flows of reform progress in the various NIS countries had made it clear that the transition to market-based economies will be a long-term process and may require generational change. The Coordinator's Office concluded that it should therefore accelerate a shift already under way towards building constituencies for long-term change. This requires directing assistance to genuine reformers, whether they be central government ministers, regional and municipal officials, entrepreneurs, small business owners, or private farmers. It requires that our programs be flexible, able to foster reform wherever it can be found.

In FY 1999, in those countries that demonstrated a commitment to implement policy reform, the U.S. Government continued to provide technical assistance at the national government level. For example, Moldova is the leading NIS country in the area of agricultural reform and support for private farmers, while Georgia has also made substantial progress in this area. Both countries were therefore recipients of robust U.S. Government-funded assistance programs in the agricultural sector in FY 1999. Russia, in contrast, has lagged badly in land reform, and the U.S. Government largely phased out its efforts in that country's agricultural sector. Meanwhile, Kazakhstan has shown a serious, long-term commitment to overhauling its pension system, and with considerable USAID assistance, the restructuring process was completed, bringing new individual pension accounts to 95 percent of the country's working population. In neighboring Turkmenistan and Uzbekistan, on the other hand, the U.S. Government has found few if any policy areas where similar results can be observed. Consequently, economic policy assistance to these governments will be reduced dramatically after FY 1999.

As assistance at the central government level has become more targeted and has declined overall, work at the regional and municipal levels has intensified. FY 1999 saw the continued expansion of Regional Initiatives in three Russian oblasts or regions (Novgorod, Samara and the Russian Far East, and soon to include Tomsk), two Ukrainian regions (Kharkiv and Lviv), and one region in Kazakhstan (Atyrau). These initiatives seek to develop collaborative relationships with local governments, with the goal of jointly designing comprehensive programs aimed at building the infrastructure of a market-based economy, attracting foreign and domestic investment, addressing the social costs of transition, and strengthening civil society.

A key element in the Regional Initiatives—and a growing component of the overall economic assistance portfolio—is support for small business. This sector of the NIS economies is underdeveloped, but has real potential to serve as an engine of economic growth and creator of badly needed employment, especially as inefficient large enterprises close. Moreover, small business owners are the foundation for an emerging middle class in the NIS. In FY 1999, the U.S. Government expanded its support for entrepreneurs in practically every NIS country, through training programs, management consulting provided by U.S. business volunteers, and technical aid to indigenous business support institutions. We also made credit more accessible to NIS entrepreneurs in the form of small loans, provided through commercial banks under programs run by

the European Bank for Reconstruction and Development (EBRD) and the three U.S. Government-backed Enterprise Funds; and through micro-credits provided by locally registered NGOs.

In FY 1999, the U.S. Government continued, where possible, to promote U.S.-NIS trade and investment, and generally to encourage the integration of NIS economies into the international economic system. While the Russian financial crisis and its spillover effects in the other NIS countries clearly dampened investor enthusiasm, conditions gradually normalized during the year. U.S. Commerce Department programs continued to provide commercial information and partnering assistance to U.S. companies interested in exporting to or investing in the NIS, while U.S. Government trade finance agencies such as the Overseas Private Investment Corporation (OPIC), the U.S. Export-Import Bank (Eximbank) and the U.S. Trade and Development Agency (TDA) directly facilitated U.S.-NIS commercial transactions. In addition, technical assistance provided by USAID and the Commerce Department helped a number of the NIS countries move closer to accession to the World Trade Organization (WTO), although Kyrgyzstan remained the only WTO member among the NIS countries in FY 1999.

Security Programs

The danger posed by the potential proliferation of the former Soviet arsenal of weapons of mass destruction (WMD) remained one of the highest priorities of U.S. Government-funded assistance to the NIS in FY 1999. The U.S. Government's programs designed to address the potential spread of nuclear, chemical and biological weapons and associated delivery systems, materials and expertise were reassessed in light of the severe economic difficulties in Russia in 1998-99 and the adverse impact of the Russian financial crisis on economies throughout the NIS. Ongoing security programs were adjusted to deal with the inability of Russia and the other NIS countries to bear the costs of continuing their efforts to fulfill arms control commitments, reduce WMD to desired levels, prevent WMD proliferation, and reform and downsize their military industrial complexes. Efforts to facilitate weapons destruction and dismantlement remained the highest priority of U.S. Government-funded security programs in FY 1999. However, an increased emphasis was placed on export control and border security assistance to help prevent illicit weapons and materials trafficking, as well as on providing non-weapons-related employment opportunities for the tens of thousands of unpaid and under-employed former Soviet weapons scientists, particularly in the biotechnology area, who are being actively recruited by states of proliferation concern and terrorists.

Immediate concerns about the consequences of the Russian financial crisis were incorporated into a \$1 billion FY 2000 budget request for the Departments of Defense, State and Energy under the multi-agency Expanded Threat Reduction Initiative (ETRI). International experts meetings were held in Brussels in June 1999 and The Hague in November 1999 involving representatives from some 30 countries and the European Union to improve the coordination of nonproliferation and threat reduction assistance and generate increased assistance commitments from other countries.

In FY 1999, the U.S. Defense Department's (DoD) Cooperative Threat Reduction (CTR or "Nunn-Lugar") Program made significant progress in the 10 NIS countries eligible to receive CTR assistance: Russia, Ukraine, Kazakhstan, Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Turkmenistan and Uzbekistan. Despite U.S. and Russian disagreements in other areas, CTR assistance to Russia continued uninterrupted throughout FY 1999. The CTR Program facilitated strategic offensive arms reductions in Russia pursuant to the START Treaties, continued construction of a facility at Mayak (in the Southern Ural Mountains) for the storage of fissile material derived from dismantled Russian weapons, and improved the security of nuclear weapons during transportation and interim storage. DoD also initiated efforts to prevent the proliferation of biological weapons (BW) expertise and enhance the security of Russian biotechnical facilities. Inadequate Russian and international investment in industrial infrastructure at the chemical weapons (CW) destruction facility at Shchuchye, Russia, led to program delays and Congressional opposition to continuing this CTR-funded effort beyond FY 1999. In FY 1999, the CTR Program also continued to help Ukraine complete the deactivation of its SS-19 missiles and the dismantlement of its SS-19 silos, and initiate similar activities for its SS-24 systems. In Kazakhstan, the CTR Program supported the elimination of SS-18 launchers and launch control silos and completed the closure of all but one of the nuclear weapons test tunnels at the Degelen Mountain complex. Throughout the eligible NIS, over 300 CTR-funded defense and military contact activities took place in FY 1999, including military exercises, ship visits and exchanges.

As a reflection of the devastating impact of the Russian financial crisis on former Soviet weapons scientists, the number of project proposals received by the State Department's Science Centers Program increased in FY 1999. The Science Centers have funded over 830 projects in the past seven years, including about 130 during FY 1999, creating opportunities for more than 26,000 former Soviet weapons scientists to pursue peaceful research. The U.S. Civilian Research and Development Foundation (CRDF) also expanded its efforts in FY 1999, conducting a new research grants competition, providing additional travel grants and offering commercialization opportunities for hundreds of former weapons scientists in the NIS.

In FY 1999, the U.S. Government intensified its focus on preventing the proliferation of biological weapons (BW) expertise. The U.S. Department of Health and Human Services (HHS) initiated a Biotechnology Engagement Program in March 1999 and began developing collaborative projects with NIS institutes to redirect former Soviet BW scientists to peaceful research addressing public health concerns. Similarly, the U.S. Agriculture Department's (USDA) Collaborative Biotechnical Research Program, initiated in late 1998, developed four new research projects with Russian institutes and one with a Kazakhstani institute in FY 1999.

The U.S. Government expanded the scope and geographic coverage of its efforts to enhance NIS export control capabilities in 1999, with the goal of helping the NIS countries prevent, deter and detect potential WMD proliferation. Under the Georgia Border Security and Law Enforcement Assistance Program, the U.S. Customs Service provided equipment, training and technical assistance to Georgia's Border Guards and Customs Department to help them establish control of the country's borders and facilitate the withdrawal of Russian border guards. In addition, the Department of State continued to support the development of NIS Partnership for Peace (PFP) interoperability and civil-military relations through the Foreign Military Financing (FMF) and International Military Education and Training (IMET) Programs.

The U.S. Energy Department's (DOE) Materials Protection, Control and Accounting (MPC&A) Program continued to make rapid improvements to the security of nuclear materials at NIS facilities, simultaneously undergoing a significant reorganization and reassessment in response to the impact of the Russian financial crisis. Under its Initiatives for Proliferation Prevention (IPP) Program, DOE provided support for collaborative projects engaging an additional 1,100 former Soviet WMD scientists, engineers and technicians in peaceful research, development and commercialization activities. These efforts complemented assistance provided under DOE's Nuclear Cities Initiative to develop alternative employment opportunities for former Soviet nuclear scientists in Russia's closed cities and to facilitate the downsizing of Russia's nuclear complex. DOE pursued a wide range of activities under its Fissile Materials Disposition Program to address the disposition of weapons-grade plutonium that has been removed from nuclear weapons and designated as no longer required for defense purposes. DOE also continued to fund its Nuclear Export Control and Second Line of Defense Programs for the NIS.

From FY 1992 to FY 1999, the U.S. Government budgeted over \$3.4 billion for security programs to reduce the threat from former Soviet weapons of mass destruction. These funds continue to be a sound investment in critical U.S. national security interests, representing only a fraction of the costs of defending the United States against these weapons.

Humanitarian Assistance Programs

Since 1992, U.S. Government-funded humanitarian assistance to the NIS has focused on those countries with the greatest need for such assistance. Under Operation Provide Hope, the U.S. Department of State delivered approximately \$280 million in humanitarian assistance to the 12 NIS countries in FY 1999. Approximately one third of this assistance consisted of commodities furnished through the U.S. Defense Department's Excess Property Program, and the remainder was in the form of privately donated commodities—mostly high-value pharmaceuticals—provided through U.S. private voluntary organizations (PVOs). Throughout FY 1999, the Humanitarian Division of the Office of the Coordinator of U.S. Assistance to the NIS worked closely with various U.S. Government humanitarian entities (primarily USAID, USDA and the Department of State), as well as with a myriad of international organizations, to respond to emergency and transitional humanitarian situations throughout the NIS. In FY 1999, USDA provided over \$1.27 billion in humanitarian food aid and concessional loans to the NIS countries, consisting of approximately \$552 million in government-to-government food aid grants, \$538 million in concessional food aid loans, and over \$183 million in targeted direct feeding and food aid monetization programs implemented by U.S. PVOs. In the wake of the Russian financial crisis, the Coordinator's Office worked closely with USDA and an interagency working group to implement a 3.7 million metric ton humanitarian food aid program in Russia through USDA's PL 480, Title I; Food for Progress; and Section 416(b) Programs, which together furnished approximately \$1.05 billion in government-to-government humanitarian food assistance grants and loans, and supported over \$113 million in targeted humanitarian feeding programs implemented by U.S. PVOs in Russia.

Financial Summary

Funding for U.S. Government assistance to the NIS under FREEDOM Support Act authorities reached its lowest level in FY 1997, but increased in FY 1998 and FY 1999. From the FY 1994 peak of \$2.5 billion, NIS assistance funds dropped to \$850 million in FY 1995, \$641 million in FY 1996 and \$625 million in FY 1997. Funding increased to \$770 million in FY 1998 and \$847 million in FY 1999. For FY 2000, the U.S. Congress has appropriated \$839 million for assistance to the independent states of the former Soviet Union.

As of the end of FY 1999, cumulative appropriations for FREEDOM Support Act, Cooperative Threat Reduction and other major NIS assistance and cooperative programs totaled an estimated \$15.58 billion, of which approximately \$14.52 billion had been obligated and \$12.93 billion expended. In FY 1999, FREEDOM Support Act obligations and expenditures increased by over \$780 million and \$790 million, respectively, while obligations and expenditures of other U.S. Government-funded programs increased by over \$1.80 billion and \$1.86 billion, respectively. (Please see Cumulative Funds Budgeted, Obligated and Expended charts in the Appendix of this report.)

Structure of the FY 1999 Annual Report

Part II of this report contains U.S. Embassy-submitted 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 1999. Part III describes the major NIS-wide U.S. Government-funded assistance programs, trade and investment programs, and cooperative activities. Part IV presents an evaluation of the performance of each of the NIS countries according to the criteria in Section 498A of the Foreign Assistance Act of 1961. Part V describes the use of the "notwithstanding" authority provided to enable U.S. Government assistance programs to move forward without delay. Part VI provides a brief update on progress made in resolving trade disputes and negotiating bilateral investment treaties with the countries of the Southern Caucasus and Central Asia. The appendix of this report provides cumulative summary charts of assistance funds budgeted, obligated and expended as of the end of FY 1999, as well as a summary of U.S. Government commercial financing and insurance.

Like our other annual reports, this report will be available through the State Department's homepage on the World Wide Web at the following address: www.state.gov/www/regions/nis/nis_assist_index.html. This report was compiled and edited by the staff of the Office of the Coordinator of U.S. Assistance to the NIS, with input from the U.S. embassies in the NIS and from Washington-based implementing agencies. Please direct any comments or questions to Ivars Kuskevics at (202) 647-0832 or by e-mail to the following address: i.kuskevics@state.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 (NIS) in FY 1999. These assessments, which also contain brief overviews of political and economic developments in each of the twelve countries, are based on information provided by the U.S. Embassies in the NIS countries.

ARMENIA

Political Overview

The Republic of Armenia reemerged eight years ago in the course of the collapse of the Soviet Union. A significant out-migration followed, reducing Armenia's population from about 3.8 million to perhaps less than 3.0 million today. The principal causes for this have been reduced economic opportunity and dislocations resulting from the Nagorno-Karabakh conflict. Bilateral efforts are under way between the Armenian and Azerbaijani presidents, with OSCE support, to resolve this conflict. Armenia has a defense agreement with Russia allowing the latter to station its troops and military equipment in Armenia. Armenia's foreign policy seeks regional integration, membership in European institutions, and cooperation with Euro-Atlantic institutions, including NATO. However, Armenia continues to face many challenges in fulfilling its commitment to a complete democratic transformation. In the most serious act of political violence since Armenia regained its independence in 1991, five apparent political dissidents burst into the National Assembly on October 27, 1999, and assassinated the prime minister, the speaker of the parliament and his two deputies, and four other members of parliament. In general, elected officials in Armenia are believed to represent voter sentiment, despite significant flaws in the country's election procedures. The current government, established in June 1999, has a working majority in the unicameral legislature. The press is generally free, although media organizations often practice self-censorship to avoid possible conflict with authorities over subjects deemed essential to "national security." Freedom of association, particularly for religious groups, is somewhat hindered by burdensome registration requirements. Armenia's most pressing human-rights need is the development of a fully independent judiciary capable of reliably protecting citizens from harassment and abuse by police and prosecutors.

Economic Overview

The government formed in June 1999 announced its commitment to continue moving the country towards a free-market economy, and the current government has reiterated that commitment. Prior to his assassination, the former prime minister had undertaken a number of initiatives in the area of structural and institutional reform and had announced a new anti-corruption program. The successors to the slain prime minister and speaker have stated their determination to continue these policies. The government's revised program aimed to achieve real GDP growth of four percent and inflation of no more than eight percent for 1999. The new government is attempting to ameliorate budget shortfalls through increased tobacco and gasoline excise duties that would be funneled to the repayment of energy-sector debts. This, along with a number of other similar financial commitments, has led the International Monetary Fund (IMF) and the World Bank to release previously delayed structural adjustment credits. The new government's economic policy priorities include export promotion and the reduction of Armenia's large trade deficit. The government has made moderate progress in drafting legislation for Armenia's accession to the World Trade Organization (WTO). The parliament will soon consider legislation required for WTO accession, including a new WTO-compliant customs code, a law on securities markets, and amendments to the law on intellectual property rights.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$111.95 million in assistance to Armenia, including \$79.90 million in FREEDOM Support Act funds, \$12.90 million in other U.S. Government funds, and \$19.15 million in privately donated and U.S. Defense Department excess humanitarian commodities. U.S. assistance was focused in the areas of market reform, energy-sector reform, democratic reform and good governance, private-sector development, social-sector reform, education and training, and agriculture. Since 1995, working closely with the Government of Armenia, the U.S. Government has decreased the amount of humanitarian assistance provided to Armenia, replacing it with development assistance and private-sector development programs. FY 1998 marked a turning point in this joint endeavor—for the first time since FY 1992, the U.S. Government allocated more funding to development programs than to humanitarian programs. In FY 1999, this trend continued—the vast majority of U.S. Government-funded assistance to Armenia was in the form of development assistance.

This shift in relative priorities is designed to help Armenia make an efficient transition to a free-market economy and create real jobs in new enterprises. A breakdown of FY 1999 U.S. Government-funded assistance by category is provided below:

- **U.S.-based training, exchange, and educational reform programs (\$17.8 million):** This area received increased emphasis in FY 1999, in the form of a congressionally mandated \$9.58 million endowment to the American University of Armenia (AUA). U.S. Government-funded efforts were focused on strengthening AUA's master's degree programs in business administration, political science, health and seismic engineering.
- **Comprehensive Market Reform Program (\$16 million):** Initiated in FY 1998, this program focuses on privatization, tax and fiscal systems, land titling, capital-markets development and accounting practices.
- **Energy-sector reform programs (\$10.2 million):** Of this total amount, \$5.7 million was allocated to promote a more economically sustainable and environmentally sound energy sector and \$4.5 million was allocated for U.S. Department of Energy nuclear safety programs at the Metsamor nuclear power plant.
- **Social-sector programs (\$7.4 million):** These included a new program to promote social-sector reform and improved delivery of services through medical partnerships with U.S. institutions and through reproductive health programs.
- **Democracy and good governance programs (\$6.7 million):** These programs are designed to increase citizen participation in decision-making processes and to promote an impartial, transparent and independent judicial system. Included in this area is support for the strengthening of civil society, non-governmental organizations (NGOs), the independent media, local government systems and the judiciary.
- **Agricultural Marketing Assistance Program (\$5.7 million):** This U.S. Department of Agriculture (USDA) program was initiated in 1996. In FY 1999, USDA expanded the program, adding a particular emphasis on assisting private-sector growth in agriculture and agribusiness.
- **Private-sector development and support for micro- and small enterprises (\$5.3 million):** This amount includes a \$3 million program for the provision of loans and grants to small and medium-sized Armenian businesses through the Eurasia Foundation.
- **Economic restructuring programs (\$4.7 million):** These programs place a strong emphasis on financial-sector reform, including banking supervision and operations.

Training, Exchange and Educational Reform Programs

Since FY 1993, U.S. Government-funded exchange programs have brought over 1,700 Armenian citizens to the United States for short-term professional or long-term academic training, including some 400 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training: In FY 1999, USAID provided short-term training to over 1,470 Armenian participants. Of this total, 110 participants attended U.S.-based training programs, over 40 attended third-country training programs, and over 1,300 attended in-country training programs. The U.S.-based training addressed issues such as NGO development, energy-sector reform, legal education, marketing, business administration, and social-sector reform and service delivery. To complement the U.S.-based training, USAID organized short-term training programs in Armenia and third-country locations in the areas of journalism, economics education, accounting, fiscal decentralization, social policy, health-sector reform, capital market reform, and anti-corruption. Of the over 1,400 participants, over 1,300 received training in the area of economic restructuring, and over 120 in the area of democratic reform. In FY 1999, USAID also funded master's degree training programs for five Armenian accountants at the University of Texas.

U.S. Information Agency (USIA) Exchanges: These programs, whose aim is to expose future Armenian leaders to Western concepts of democracy and market economics, received a significant increase in emphasis in FY 1999. Over 170 Armenians traveled to the United States on USIA academic exchange programs, including 58 individuals who enrolled in U.S. master's degree programs under the FREEDOM Support Act Graduate Fellowship Program, 25 students under the Undergraduate Exchange Program, and 50 high school students under the Future Leaders Exchange (FLEX) Program. Four Armenian scholars participated in the Regional Scholars Exchange Program, five in the Contemporary Issues Fellowship Program and four in the Fulbright Fellowship Program. In addition, over 110 Armenians participated in USIA professional exchange programs in FY 1999. Some 30 Armenians received U.S.-based training through the International Visitors (IV)/FREEDOM Support Grant Program in areas such as civic education, curriculum development, information technology, conflict resolution, financial management, the role of official spokespersons, media ethics, and establishing professional associations. A total of 60 Armenians were selected for the Community Connections Program, which placed groups of participants in four- to five-week community-based internships in U.S. cities in the fields of tourism, dairy production, business, job assessment and job marketing, and the environment.

USIA Secondary School Partnerships: In FY 1999, 20 Armenian students and four Armenian educators from Yerevan, Vanadzor and Echmiadzin participated in a three-week exchange under USIA's NIS Secondary School Partnership Program. In addition, a USIA-sponsored Internet connectivity project facilitated an exchange of teachers between six U.S. and six Armenian schools. The exchange took place in conjunction with the establishment of computer/Internet centers in the six Armenian schools. One of the six U.S. schools involved in this program donated additional computers that were subsequently installed in three additional Armenian secondary schools.

USIA University Partnerships: A USIA-funded partnership between the American University of Armenia (AUA) and the University of California – Berkeley's Boalt Law School continued in FY 1999, with 19 Armenian students accepted into the L.L.M. program's fourth cycle. There are currently four additional USIA-sponsored university partnerships under way in Armenia: Yerevan State University and Florida State University; Yerevan State University's Journalism Department and Middlesex Community College; Northeastern University and the Cambridge-Yerevan Sister City Association; Yerevan State University's Economics/Business Department and the University of California, Fresno; and the American University of Armenia and the Miami University of Ohio. These partnership programs continue to support faculty and administrative staff exchanges that involve a combination of teaching, lecturing, faculty and curriculum development, collaborative research, and outreach.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, USDA's Cochran Program continued to support agricultural reform in Armenia, organizing FREEDOM Support Act-funded short-term exchange programs for a total of six participants.

USDA Support for Agricultural Education Reform: USDA's Marketing Assistance Program (MAP) is helping the Armenian Agricultural Academy (AAA) revise its curriculum and integrate the Armenian Agricultural Extension Service and several national research institutes into the AAA. MAP is also helping the AAA design an undergraduate degree program in agribusiness management to be implemented in the 2000 fall semester, which will be taught entirely in English and will feature guest speakers from several American universities. MAP is also providing limited opportunities for exceptional AAA students to continue their studies and receive advanced degrees from prominent U.S. universities. All of these students have contracts to return to Armenia to teach undergraduate courses. In addition, USDA facilitated the creation of the Foundation for Applied Research and Agribusiness, whose membership consists of more than forty AAA professors and students and whose goal is to use applied research to improve income at the farm level. One successful Foundation project tested U.S. tomato varieties and found varieties that increased tomato production by 60 percent in comparison with Armenian varieties.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships for two Armenian participants. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

Economic Restructuring Programs

USAID Economic Restructuring and Reform Programs: In FY 1999, USAID continued its broad program of support for economic restructuring, which was initiated in FY 1998 and addresses a comprehensive set of market reforms. Despite the Armenian Government's strong initial commitment to these efforts, several factors, including election-related politics and changes in key Armenian Government leadership positions, led to a slowing of the pace of reform. While progress was somewhat disappointing, assistance in this area continued to lay the groundwork for long-term economic development in Armenia.

- **Tax and Fiscal Reform Programs:** USAID supported the implementation of a comprehensive modernization plan for district offices of the tax inspectorate. Transparent and efficient systems, including automated records, taxpayer services and audit selection, have been established in two pilot offices. Rollout in the remaining 18 Yerevan-area offices is scheduled to take place in early 2000. Based on this support, the Armenian Government is now developing modern revenue and expenditure forecasting models, market-based valuations, and program-based budgeting techniques for the FY 2000 budget cycle.
- **Accounting Reform Programs:** All Armenian firms are scheduled to convert to international accounting standards (IAS) by the end of 2001. USAID helped translate and adapt IAS in Armenia, conducting training at several levels. USAID also provided direct assistance to approximately 600 enterprises that will be using IAS by the middle of 2000.

- **Privatization Support:** After rapid progress in previous years, including several high-profile reforms, the pace of privatization in Armenia slowed considerably in FY 1999. USAID assistance has nevertheless helped establish a framework for future widespread privatization, pending increased political will on the part of Armenia's political leaders. Approximately 3,000 enterprises have been identified for privatization, including nearly 700 medium-sized and large businesses, and a series of companies have been slated for liquidation or tendering to foreign and local investors. The key to success in this area will be the Armenian Government's renewing of its commitment to divest state holdings.
- **Land Registration and Titling Programs:** In FY 1999, USAID assistance continued to build on previous years' progress in this area. To date, more than 75 percent of agricultural land has been transferred to private ownership, and by law the remaining 25 percent must also be transferred. In coordination with the World Bank and TACIS (the European Union's technical assistance program for the NIS), a streamlined methodology is being used to survey, register and title urban and rural land throughout the country. Largely as a result of these efforts, 100,000 land parcels have been surveyed to date. USAID also provided assistance in drafting laws that will ensure the development of land markets in Armenia.
- **Capital-Market Development Programs:** USAID is supporting efforts to develop a commercially viable capital market in Armenia, so as to provide an impetus for private business development and facilitate investment by Armenian citizens in their country's economy. In FY 1999, USAID-funded advisors helped draft legislation that includes provisions for an independent securities commission and provides a framework for securities-market development and regulation. Progress was also made in the development of an independent registry and share-holding companies, and broker/dealer training was provided. As in other areas, however, further progress and the continuation of assistance are contingent on political will on the part of the Armenian Government to pass the draft securities law.
- **Other USAID Private-Sector Programs:** Several other USAID programs also supported Armenia's economic restructuring efforts, for example, by facilitating the ongoing development of banking supervision standards and electronic banking systems. Having completed USAID-funded IAS training, more than fifty Armenian bank employees will now be better equipped to convert their country's banking sector to IAS. In addition, the Eurasia Foundation, Shorebank/Foundation for International Community Assistance (FINCA) and the International Executive Service Corps (IESC) continued to provide credit and training to micro- and small enterprises. USAID also provided technical assistance and policy support to help the Armenian Government move towards WTO accession and expand its export markets.

USDA Marketing Assistance Project (MAP): In FY 1999, MAP played a key role, both technically and financially, in a highly successful collaborative effort involving the World Bank, the Lincy Foundation and the Andre Group of Switzerland. Under this program, 7,000 metric tons of tomato paste were produced and exported, with an export value of \$4.5 million. In addition, \$2.5 million worth of tomato paste was produced and packaged for domestic sale. In addition, MAP loans were used to purchase agricultural production from 6,000 Armenian farmers and to provide aseptic production and packaging equipment to four major canneries to meet world-quality standards. MAP also provided a \$550,000 credit for the purchase of 2.3 million glass jars and the establishment of Armenia's first leasing company. More than 1,000 seasonal jobs were created at the cannery level and an estimated 5,000 jobs were created at the farm level. Counting farmers, cannery workers, harvest workers and their dependents, more than 50,000 people benefited from the tomato paste project. Also in cooperation with the World Bank, MAP played a key role in the opening of Armenia's only domestic fruit juice processing plant, by providing a loan for 63 percent of the required funding. The company, New Wave, Limited, began operations by selling 3,500 liters of juice per week in the Yerevan market and secured a contract for exporting their production. The plant, which uses modern aseptic packaging, processes apricot, peach, apple, and rose hip juice, and has created 40 new jobs and 60 seasonal jobs, and has purchased fruit from 20,000 farmers. In addition, MAP provided financial and technical assistance to Armenia's cheese industry and to packaging firms that support the industry. Armenia's production of European-style cheeses was increased by 300 percent, resulting in substantial import substitution. In FY 1999, MAP also provided over \$1.52 million in loans to 215 agri-businesses and individual farmers, milk processors, and livestock producers to expand the sale of cheese, dried fruit, milk products, meat, wine, tomato paste, and fresh and processed fruit.

U.S. Department of the Treasury – Technical Advisors: Throughout FY 1999, three U.S. Treasury Department advisors, working in close cooperation with USAID, continued to support an essential element of Armenia's economic reform program by providing practical advice to the Ministries of Finance and Economy in the fields of budget administration, tax administration, government securities management, and enforcement. (Please see Treasury Department section in Part III of this report.)

Energy and Environmental Programs

USAID Energy-Sector Reform Programs: FY 1999 was a watershed year for USAID's energy-sector reform efforts in Armenia. In February 1999, a memorandum of understanding was signed with the Armenian Government outlining planned assistance and, most importantly, a series of Armenian Government commitments that are essential to the development of sustainable energy systems in Armenia. While major reforms still need to be taken over the next year, technical and commodity assistance is laying the groundwork for the wide-scale privatization of energy distribution in May 2000, and the subsequent privatization of energy generation. Achievements made during the past year, in close coordination with the World Bank, include the following:

- Transmission- and distribution-metering capacities are being upgraded through USAID technical assistance and the ongoing provision of \$7 million worth of equipment. In two pilot areas, collections have increased by as much as 35 percent. Nationwide metering of the transmission system and major distribution substations, which will be completed by mid-2000, is essential to the development of a wholesale power market that is attractive to private-sector investors.
- USAID-funded advisors have helped develop systems for the regular collection and analysis of financial data.
- A least-cost generation development plan is nearing completion. This plan will provide alternatives to Armenia's Metsamor nuclear power plant and facilitate its future closure.
- USAID-funded advisors helped develop a strategy for the self-financing of the Armenian energy regulatory commission.
- USAID provided technical assistance to develop and implement the conversion of energy-sector agencies to international accounting standards (IAS).
- USAID-funded advisors helped develop market-based rules for energy sales, which were subsequently accepted in principle by the Armenian Government. Final approval is pending.

Democracy Programs

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission disbursed five grants totaling approximately \$50,000 to local Armenian organizations in FY 1999, including independent radio and television stations, consumer protection groups, environmental protection groups, human rights groups, women's rights groups, and other local non-governmental organizations (NGOs). By helping the recipient organizations increase their institutional capacity, these grants helped strengthen civil society in Armenia.

USAID Democracy Programs: In FY 1999, these programs focused on two main objectives: increased citizen participation in political and economic decision-making, and ensuring that laws are enforced and adjudicated impartially.

- **Election-Related Assistance:** USAID provided technical assistance to the drafters of the new electoral code, which was passed in February 1999. The new code provided a basis for more transparent elections, allowing domestic observers to monitor all aspects of elections. During the May 1999 parliamentary elections, observers noted a marked decrease in the incidence of fraud, compared to previous elections, although significant administrative problems remained.
- **Media Assistance:** In FY 1999, USAID-funded technical assistance helped independent television stations continue to improve the quality of their news programming and increase their advertising revenues. In FY 1999, USAID also began a program to improve the quality and viability of print media in Armenia.
- **Local Government Programs:** To facilitate citizen participation in Armenia, USAID began designing a comprehensive local government program, which will strive to develop formal systems of communication between citizens and government. This program will also focus on increasing the transparency and accountability of local government and helping local government officials find ways to deliver municipal services more efficiently.
- **Rule-of-Law Programs:** Recent structural and legislative changes have helped set the stage for the development of a fair system of justice in Armenia. USAID's legal and judicial reform program is now focused extensively on providing

support to the newly reformed judiciary. In January 1999, through a competitive testing and certification process, 123 new judges were appointed to the courts of first instance and courts of appeal. USAID-funded consultants have worked closely with these judges and the Council of Court Chairmen on developing a comprehensive training program for all judges, as well as for court administration personnel. Also with USAID support, Armenian defense attorneys participated in U.S.-based training provided by the Bar Association of Armenia. USAID also continued to help the Yerevan State Law School improve its curriculum and enhance the knowledge and teaching capabilities of its faculty. A USAID-funded technical assistance program initiated with the Ministry of Justice helped the Court Executors' Service improve the enforcement of court judgments.

- **NGO Development Programs:** With USAID assistance, Armenian NGOs progressed somewhat in their ability to engage citizens and the government in FY 1999, although their financial viability and organizational capacity generally remained weak.

Security Programs

The Armenian Government has demonstrated a willingness to cooperate with the United States in preventing weapons of mass destruction (WMD) proliferation and in fighting transnational crime. Armenia is an active member of the State Department-supported International Science and Technology Center (ISTC) in Moscow, which provides former Soviet weapons scientists with opportunities to work on peaceful civilian research projects so that they would not be tempted to sell their expertise to countries of proliferation concern. In FY 1999, the U.S. Government also promoted the participation of former WMD scientists in peaceful research projects supported by the U.S. Civilian Research and Development Foundation (CRDF). In addition, Armenia has taken several steps to strengthen its export controls, and U.S. Government-funded export control and border security programs provided training and equipment to the Armenian Customs Service and Border Guards to improve their export control capabilities and prevent WMD proliferation.

Social-Sector and Humanitarian Programs

USAID Hospital Partnerships: Two USAID-funded U.S.-Armenian hospital partnerships have been active since 1993: one between the Yerevan Emergency Scientific Medical Center, Boston University and the University of Massachusetts, and one between the Erebuni Medical Center and the University of California, Los Angeles (UCLA) Medical Center. These partnerships have resulted in the application of new concepts in emergency medicine, as well as in increased access for Armenian citizens to emergency medical services. In FY 1999, partnership activities focused on pediatric emergency training, disaster preparedness and nursing education training. The Erebuni-UCLA hospital partnership also developed a bachelor's degree program in nursing, established a neonatal resuscitation center and provided support to a Women's Wellness Center. FY 1999 saw the graduation of the first class of nurses from the bachelor's degree program and training provided in Armenia's regions by the Women's Wellness Center in up-to-date approaches to women's health issues. In addition to the two ongoing partnerships, four new three-year partnership agreements were awarded in FY 1999 focusing on increasing the quality of primary health care at the community level. These new partnerships are between UCLA and Armenia's Lori Region, Care New England Health System and the Gegarkunik Region, the University of Texas and the Armavir Region, and the University of Alabama and the Armenian National Institute of Health.

USAID Social-Sector Reform Programs: Armenia has made significant efforts to address the needs created by the weaknesses of the country's social protection systems, which have largely collapsed after the breakup of the Soviet Union. However, the current economic environment in Armenia is creating an increasingly large number of vulnerable individuals who require assistance and for whom adequate protection does not yet exist.

- **Reproductive Health Programs:** In FY 1999, USAID began supporting the development of a nationwide informational and educational campaign on family health and family planning, which is to be launched in April 2000. The program will also focus on strengthening the skills of gynecologists and pharmacists in customer service and health communication.
- **Earthquake Zone Housing Strategy:** In FY 1999, the Armenian Government expressed a renewed interest in solving the housing problem created in northern Armenia by the December 1988 earthquake. At present, more than 26,000 shelters are required to house victims of the earthquake. USAID is funding an activity that demonstrates new approaches to solving the region's housing problem while minimizing more costly new construction. These new approaches include: (1) utilizing the existing supply of homes from the local real estate market; (2) supporting the reinforcement of uninhabited buildings; and (3) improving the targeting of benefits to individuals on waiting lists for new

homes. This program hopes to demonstrate that these new approaches can re-house more families more quickly at a fraction of the cost of new construction.

- **Community Development Program:** Active throughout Armenia, USAID's Community Development Program supports the identification of needs at the local level and the design and development of projects to meet those needs. In FY 1999, the program increased its focus on incorporating women into community-level decision-making, resulting in a greater number of health- and education-related projects. In FY 1999, approximately 90,000 additional people were reached through micro-projects, bringing the estimated total number of beneficiaries since 1995 to 290,000. Community contributions for implementing these programs continue to increase, exceeding program requirements, with an average of 45-percent cost-sharing.

U.S. Department of Agriculture (USDA) – Government-to-Government Food Aid: In FY 1999, the Government of Armenia decided not to accept a \$10 million concessional loan for the procurement and delivery of U.S. wheat to Armenia under USDA's P.L. 480, Title I Program, basing its decision on the premise that accepting the loan would have exacerbated the country's 1999 budget deficit and would therefore have seriously jeopardized the planned release of segments of Armenia's IMF and World Bank loans. The Armenian Government subsequently requested a USDA Section 416(b) grant wheat program for FY 2000, the provision of which will be dependent on commodity availability and funding authority.

USDA PVO Food Aid Programs: In FY 1999, USDA allocated \$9.15 million for the provision of approximately 6,200 metric tons (MT) of food commodities to Armenia, drawing from USDA resources under the Food for Progress and Section 416(b) Programs. USDA's Food for Progress Program donated 5,700 MT of commodities through two U.S. private voluntary organizations (PVOs) working in Armenia: the Fund for Armenian Relief (FAR) and the United Methodist Committee on Relief (UMCOR). UMCOR monetized 2,500 MT of these commodities and used the proceeds to carry out several programs to assist health care providers and to improve agricultural facilities. FAR used 1,900 MT of donated commodities for the direct feeding of 60,000 beneficiaries. In addition, FAR used the proceeds from the monetization of 1,300 MT of commodities to help revitalize the country's dairy industry. In addition to the Food for Progress commodity donation, USDA also donated 500 MT of dry milk to support United Nations World Food Program (WFP) initiatives in Armenia.

USAID Humanitarian Assistance: In FY 1999, only 18 percent of the FREEDOM Support Act assistance budget for Armenia was allocated to humanitarian assistance. This decrease was the result of a mutual U.S. and Armenian Government desire to reduce humanitarian assistance in favor of development assistance and private-sector job creation. During FY 1999, the Government of Armenia demonstrated an improved ability to identify and target humanitarian assistance needs, in large measure due to the USAID-funded PAROS system, a computerized database of 750,000 households that was initiated in 1996 and is now used to manage the distribution of humanitarian assistance in Armenia. The PAROS database allows USAID, other donor organizations, and the Armenian Government to identify the most needy members of the population and to distribute humanitarian assistance accordingly. The Armenian Government is also better positioned fiscally to shoulder more of the responsibility for maintaining and strengthening the country's social safety net, especially for the most vulnerable members of the population. For example, last winter, the Armenian Government allocated \$3 million to pay a winter supplement to approximately 200,000 needy families.

1998-99 Winter Warmth Program: For a sixth and final year, this U.S. Government-funded program distributed 7,300 metric tons of kerosene to Armenian schools and to the vulnerable population living in temporary shelters in northern Armenia's earthquake zone. This important, high-profile program was the only source of heat for a large segment of the population and for the vast majority of Armenia's schools for the entire winter. Over the last six winters, the program has been gradually reduced, both in the number of beneficiaries and in the amount of kerosene distributed, and it was closed out after the 1998-99 season. This close-out was accomplished in coordination with the Armenian Government, as the focus of U.S. Government-funded assistance programs continued to shift away from humanitarian assistance and as the Armenian Government expanded its capability to provide for the needy and the country's schools. The final 7,300 metric tons of kerosene was distributed to almost 36,000 beneficiaries living in temporary shelters since the December 1988 earthquake, 1,303 schools throughout Armenia, and 81 other institutions.

Seed Delivery Program: In FY 1999, the State Department's Operation Provide Hope funded the cost (approximately \$107,000) of transporting 1,528 metric tons of spring barley seed purchased by the Armenian Government. This program was undertaken to help Armenian farmers recover from the 1998-99 drought by providing them with an essential agricultural input for the spring 1999 planting season.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided almost \$197 million in humanitarian assistance to Armenia. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$1.66 million in transportation and grant funds to deliver \$19.15 million in humanitarian assistance to targeted groups in Armenia through Operation Provide Hope. In collaboration with the Ministry of Health, this assistance was tailored to Armenia's needs, with high-value pharmaceuticals furnished by the U.S. PVO CitiHope being delivered to government hospitals and to clinics by the United Methodist Committee on Relief (UMCOR) under a grant from the Coordinator's Office.

Support for WFP Food-For-Work Program: Since 1996, the United Nations World Food Program (WFP) has been transitioning from humanitarian distributions to development assistance through its food-for-work program in Armenia. With funding from multiple donors, the program has employed more than 75,000 vulnerable Armenians, while at the same time creating the infrastructure necessary for income generation. Through this program, WFP employs more people than any other non-governmental employer in Armenia. In lieu of wages, workers receive food packages of vegetable oil, flour and sugar. The U.S. Government has been enthusiastically supporting this program since its inception. In FY 1999, two U.S. Government agencies made significant contributions to the execution of this successful and necessary program. In response to an appeal to donors, USAID contributed \$571,000 to the program, and through its FY 1999 Section 416(b) Program, USDA provided 500 metric tons of flour with a total commodity and transportation value of over \$240,000. It is likely that without U.S. Government support, this important WFP program could not have attained such a high degree of success.

Cross-Sectoral Programs

Peace Corps: During the seven years the Peace Corps has been operating in Armenia, over 200 Peace Corps volunteers (PCVs) have served in its English-language education and small enterprise development (SED) programs. In FY 1999, over 50 PCVs served in 23 sites spread across seven of Armenia's ten regions. Under the SED program, PCVs provided technical assistance to local NGOs, small business centers, and private entrepreneurs in the form of training seminars, classroom teaching, business-plan consulting, and on-the-job cooperation with Armenian counterparts. English-language education PCVs taught in Armenian grade schools and institutions of higher learning, simultaneously assisting with curriculum development and the organization of community resource centers. For the first time in FY 1999, health education was also integrated into nine of the PCVs' teaching assignments. USIA continued to support an annual traveling teachers' show in which PCVs and their Armenian colleagues demonstrated participatory and communicative methods to local teachers in a series of workshops in several communities. This past summer, PCVs also collaborated with the NGO Save the Children to organize a 225-kilometer hike to promote environmental awareness across Armenia. Along the route of the hike, PCVs and their Armenian counterparts conducted environmental workshops and camps. Other community development activities included working with orphanages, improving school facilities, collaborating with community members to organize a festival, setting up computer training programs, and helping a wide range of local interest groups address organizational and resource-related issues.

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded a total of \$1.14 million in grants to Armenian NGOs working to support civil society, democracy-building, public administration and small-business development. In October 1998, the Foundation initiated a South Caucasus Synergy Program designed to facilitate greater contact and cooperation among leading NGOs in Armenia, Azerbaijan and Georgia through support for cross-border projects in such areas as business development, legal reform, civil society-building, and public administration. (Please see Eurasia Foundation section in Part III of this report.)

Preview of FY 2000 Programs

In FY 2000, U.S. Government-funded assistance programs for Armenia will focus on increasing the demonstrable and tangible benefit of U.S. Government assistance to the average Armenian citizen and to his/her standard of living. The U.S. Government will seek to accomplish this by designing assistance programs that will:

- stimulate growth in the competitive private sector and increase investment by both the private and public sectors, with a special focus on job creation and employment in a market economy, and on combating corruption;
- enhance Armenia's energy security by developing a safe and sustainable energy sector;
- improve investor confidence and business development and promote democracy and the rule of law;

- strengthen Armenian public support for the continuation of economic reforms by strengthening the social safety net and enhancing foreign investor confidence in regional security and stability;
- stimulate regional integration and cooperation through regional initiatives in such areas as transportation infrastructure, customs harmonization, energy sharing, water resource management and exchanges;
- continue to engage the next generation of Armenian leaders through exchanges and training programs;
- refocus and prioritize the ongoing U.S. Government support for Armenian policy reform, institutional restructuring, and training and education; and
- continue to decrease humanitarian assistance in favor of a more targeted development approach, with a particular emphasis on job creation, education and agriculture.

In FY 2000, USAID will also be designing a new social-sector reform program to help Armenia establish a framework for appropriate macro-level social insurance systems (e.g., health, pensions, disability, and unemployment), provide appropriate social services to the most vulnerable populations on a sustainable basis, and support key improvements in the effectiveness and efficiency of Armenia's primary health-care delivery system.

Under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will increase assistance to prevent the proliferation of weapons of mass destruction, weapons technology and expertise in Armenia in FY 2000. Scientific collaboration programs will help prevent proliferation of weapons expertise and redirect former Soviet weapons experts to peaceful pursuits. Support for enhanced export controls and border security through the provision of equipment and training will also increase in FY 2000.

AZERBAIJAN

Political Overview

Democratic reform stagnated in Azerbaijan in FY 1999, due in large part to the political effects of the country's endemic culture of corruption. The Azerbaijani Government's conduct of the October 1998 presidential elections and its preparations for the December 1999 municipal elections fell far short of international democratic standards. What little progress the government made, e.g., in improving the country's electoral laws, was largely the result of substantial encouragement from the international community, including the U.S. Embassy in Baku. Although there were improvements in the legislative basis for democracy in Azerbaijan, the government's observance of human rights and democratic norms consistently fell short of international standards in almost all areas, including freedom of speech, freedom of religion, and freedom of association. Of particular concern in a country where corruption is widespread and deep-rooted, the concept of the rule of law remains poorly understood and completely unpracticed. The lack of legal reform, the absence of an independent judiciary, and the dearth of qualified lawyers constitute a major impediment to Azerbaijan's further democratization.

Economic Overview

In FY 1999, Azerbaijan's progress in the area of economic reform was spotty. Except for the drafting of a new tax code that is expected to receive parliamentary approval by the end of January 2000, there were few legislative developments that moved the economic reform process forward. By the end of the third quarter of 1999, long-awaited legislation on the privatization of large state enterprises had not seen the light of day. Similarly, efforts to privatize state-owned banks fell behind schedule. In addition, the Government of Azerbaijan has yet to follow up effectively on a World Bank public-sector reform initiative. At the same time, however, the Azerbaijani Government made progress by subsuming oil bonus payments into the state budget. In the agricultural sector, a significant tax cut mandated by presidential decree reduced the tax burden on farmers and encouraged production. A \$33 million World Bank agricultural program was approved in FY 1999, but funds have not yet been disbursed. The program is designed to rationalize Azerbaijan's critical, but problem-plagued agricultural sector, which is now 98-percent privately owned.

Azerbaijani practices in the areas of commercial law, accounting standards, tax administration and customs operations do not meet international standards and thus constitute barriers to foreign investment and economic development. Licensing

and regulatory practices are bureaucratic and non-transparent, and corruption is widespread. However, in spite of the substantial disincentives to economic development that remain in place, Azerbaijan's macro-economic figures show an economy that is growing steadily, but which is increasingly dependent on the oil sector. A total of 19 production-sharing agreements (PSAs) have been signed with foreign oil companies, resulting in over \$2.5 billion in foreign investments in the Azerbaijan's hydrocarbon sector since 1994. This inflow has had a huge impact on Azerbaijan's \$4 billion economy: in 1998, GDP growth reached 10 percent. In 1999, GDP growth was projected to be in the five- to six-percent range. In an effort to counter a growing current account deficit associated with the collapse of the Russian ruble, Azerbaijani authorities devalued the national currency, the manat, by seven percent in July 1999.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$ 59.69 million in assistance to Azerbaijan, including \$35.04 million in FREEDOM Support Act (FSA) funds, \$9.42 million in other U.S. Government funds, and \$15.23 million in U.S. Defense Department excess and privately donated humanitarian commodities. Approximately \$30.0 million in FSA funding was used by USAID to implement activities permitted under Section 907 of the FSA (which prohibits certain types of assistance to the Government of Azerbaijan until it lifts its economic blockades against Armenia), including \$23.0 million for humanitarian assistance, \$3.0 million for democracy and governance programs, and \$4.0 million for cross-sectoral activities.

In FY 1999, U.S. Government assistance efforts in Azerbaijan continued to focus on humanitarian assistance. By expanding the range of activities permissible under Section 907 of the FSA, the U.S. Congress made possible much-needed assistance in the area of democracy and governance. In particular, the relaxation of Section 907 allowed the U.S. Government to work with Azerbaijani election officials in an effort to increase the freeness and fairness of elections. However, progress continued to be extremely slow in many areas. U.S. Government efforts to promote reform were hampered by the scarcity of resources available for assisting other vulnerable citizens besides internally displaced persons (IDPs) and refugees. The fact that IDPs and refugees were being provided with health, nutrition and education benefits, while little such support was being provided to other vulnerable populations, led to the growth of resentment towards IDPs and refugees among the majority of the population. This perceived discrimination created considerable tension between the IDPs/refugees and other segments of the population, causing concern that these growing tensions could lead to hostility and possible political instability in Azerbaijan.

Social-Sector and Humanitarian Programs

U.S. Department of Agriculture (USDA) Food Assistance: In FY 1999, USDA allocated \$8.33 million for the provision of approximately 19,400 metric tons (MT) of food commodities to Azerbaijan, mainly through agreements with the Adventist Development and Relief Agency (ADRA), U.S. private voluntary organization (PVO). ADRA received 12,580 MT of wheat under USDA's Section 416(b) Program, as well as 3,820 MT of vegetable oil, rice and beans. ADRA directly distributed a portion of these commodities through its feeding program and monetized the remainder, using the proceeds to support the further development of a technology transfer program targeted at Azerbaijan's agricultural sector. In addition, the United Nations World Food Program (WFP) distributed 3,000 MT of USDA-donated wheat flour as part of its ongoing efforts to aid war victims and displaced persons. In addition, Azerbaijan received \$5.00 million in export credit guarantees under USDA's GSM-102 Program.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has almost \$73 million in humanitarian assistance to Azerbaijan. In FY 1999, the Coordinator's Office expended approximately \$2.97 million in grants and transportation costs to deliver \$15.23 million in targeted humanitarian assistance to the people of Azerbaijan. Grants were provided to the following PVOs: Counterpart, the United Methodist Committee on Relief (UMCOR), Eaton Hap, CitiHope, and International Relief and Development (IRD).

USAID Humanitarian Assistance: Throughout FY 1999, USAID-funded grantees provided vital assistance to IDPs and refugees in Azerbaijan. Primary health care was provided to some 485,000 beneficiaries living in areas with a high density of IDPs. USAID-funded projects also continued to make progress in the provision of basic shelter to 30,000 IDPs in urban and rural areas. In addition, the scope of USAID-funded income-generation projects was expanded, allowing some 4,000 IDPs to take charge of their lives and regain their sense of personal pride. USAID also provided start-up funding to UNHCR for the shelter components of a World Bank-funded resettlement program, which aims to resettle 3,000 IDPs in their home villages in the Fizuli, Agdam, and Ter-Ter regions. USAID provided \$1.0 million to UNICEF for the Expanded

Program of Immunization (EPI) and malaria eradication, and \$1.0 million to support the United Nations World Food Program (WFP) feeding program in Azerbaijan.

- **Azerbaijan Humanitarian Assistance Program (AHAP):** In FY 1999, Mercy Corps International began to implement the new USAID-funded AHAP program, which manages 16 subgrants in the areas of health and nutrition, shelter, and economic opportunity. Under AHAP, work also began on a U.S.-Azerbaijani health partnership program.
- **Assistance to Victims of the Nagorno-Karabakh Conflict:** In FY 1999, the “Save the Children” Foundation (SCF) initiated a project in Berda on community participation and decision-making. Under AHAP, CARE and SCF were awarded a grant to implement a project in the Fluntotine district of Geronboy to assist victims of the Nagorno-Karabakh conflict. As of the end of FY 1999, 30 activities had been completed and 26 others were under way in this region. Representative activities included the formation of community action teams and information groups, the repair of damaged housing, the provision of agricultural inputs, and training in nutrition.

Training, Exchange and Educational Reform Programs

Since FY 1993, U.S. Government-funded exchange programs have brought over 960 Azerbaijani citizens to the United States for short-term professional or long-term academic training, including some 280 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training Programs: In FY 1999, 360 Azerbaijani citizens participated in USAID-funded training programs: 72 of them in U.S.-based programs, 21 in third-country programs (in other countries undergoing political and economic transitions) and 267 in in-country programs. Of the 360 total participants, over 300 received training in the area of economic restructuring and over 50 in the area of democratic reform. The Academy for Educational Development (AED), USAID's training provider, sponsored ten training programs, including a community development course for refugee and IDP community leaders; courses in business development, agri-business consultation and democratization; and agricultural development study tours.

U.S. Information Agency (USIA) Exchanges: In FY 1999, over 130 Azerbaijani citizens participated in USIA academic exchange programs, including 30 graduate students who participated in one- and two-year graduate degree programs in a range of targeted fields, 19 undergraduate students who spent a year in the United States, 55 secondary school students who participated in USIA's Future Leaders Exchange (FLEX) Program, and 10 scholars who conducted research in the United States. These exchange programs provided young Azerbaijanis with the skills and expertise needed to operate successfully in a democratic, market-based society. In addition, some 66 Azerbaijani citizens participated in USIA professional exchange programs. For example, USIA's International Visitors (IV) /FREEDOM Support Grant Program introduced 45 Azerbaijani politicians, ministers, government officials, businessmen, newspaper editors and lawyers to relevant aspects of the American system. FY 1999 IV Program participants included the chairmen of political parties; the Minister of Education; 10 parliamentary deputies; judges from the Supreme Court, Constitutional Court, Economic Court and key district courts; journalists; and NGO leaders involved in conflict resolution. USIA's Professionals-in-Residence (PIR) Program placed U.S. experts in Azerbaijan in various fields, including academic publishing, business development, in-service teacher education, and documentary film production.

USIA University and Secondary School Partnerships: In FY 1999, USIA established four new U.S.-Azerbaijani university partnerships: two MBA programs (Azerbaijan Oil Academy with Georgia State University, and the Western University with the University of Northern Alabama), a partnership in American studies (Baku State University with Indiana University), and one in public administration (Western University with Indiana University). USIA's Secondary School Linkage Program supported ongoing sister-school relations between four schools in Baku and four in Florida, involving 20 students and five teachers from each side. USIA also initiated the Civics Education Curriculum Development and Teacher Training Program, which targets six Azerbaijani secondary-school grades and training teachers to implement the civic education curricula.

USIA Library Development / Book Translation Programs: In FY 1999, USIA's Library Development Program established a center for librarian training in areas including database development and usage, Internet access and searching, document distribution and association management to help promote increased access to information throughout Azerbaijan. In addition, with support provided by USIA, Khazar University Press will translate and publish ten Azerbaijani-language textbooks in critical fields, including business administration, management, finance, journalism, international law, interna-

tional relations and political science. Also with USIA support, an Azerbaijani NGO, Tutu, will develop a series of five secondary-school texts on democracy.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, USDA's Cochran Program continued to support agricultural reform in Azerbaijan, organizing short-term exchange programs for a total of nine Azerbaijani agriculturists.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships for four Azerbaijani participants. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

Economic Restructuring Programs

USAID Small Business Lending and Micro-Credit Programs: In FY 1999, U.S. assistance in this area was geared towards promoting the development of a small-business sector in Azerbaijan, with a particular focus on agriculture and agribusiness. Shorebank, a USAID grantee, provided technical assistance and training to three private banks in Azerbaijan that are using International Finance Corporation (IFC) loans to provide loans of up to \$100,000. The IFC has opened credit lines of \$3.4 million to those three banks. Shorebank aims to create a small-business lending capacity in the private banks, which so far have disbursed nine loans totaling \$491,000. In addition, the USAID-funded Foundation for International Community Assistance (FINCA) supported a village bank lending activity and made loans between \$50 and \$1,000 to micro-entrepreneurs who were otherwise not being serviced by Azerbaijan's commercial banking sector. To date, FINCA has disbursed \$317,450 in loans to 660 clients.

USAID Banker Training Program: The USAID-supported Barents Group implemented a banker training program for Azerbaijan's privately owned banks. The training was implemented in a series of one-week courses taught by recognized experts. Participants included mid- and upper-level technical and managerial bank staff. To date, 240 private sector-banking participants have been trained. Towards the end of FY 1999, it became difficult to identify additional qualified participants from the private sector who meet both the training criteria and Section 907 provisions (i.e., the prohibition on providing assistance to Azerbaijani state-owned institutions). The program was terminated due to a lack of qualified private sector participants.

USAID Agribusiness Development Programs: In FY 1999, USAID financed technical assistance to Azerbaijan's for-profit agricultural and agro-processing sectors, with the goal of enhancing the development and economic opportunities of agricultural enterprises, as well as supporting local organizations that work towards this same goal. Under the Farmer-to-Farmer Program implemented by Volunteers in Overseas Cooperative Assistance (VOCA), 18 U.S. technical experts and agro-processors traveled to Azerbaijan, each providing two to four weeks of intensive hands-on technical assistance in production, improved business techniques, processing and packaging, marketing and finance. VOCA also supported the development of farmers' associations and processing cooperatives. Although this program was quite effective in its existing scope, Section 907 of the FREEDOM Support Act prohibited USAID from working on the policy and regulatory environment with the Government of Azerbaijan, thus imposing serious constraints on USAID's ability to achieve sustainable results in the area of agricultural policy and regulatory reform in Azerbaijan.

Democracy Programs

USAID Election-Related Assistance: With the initial loosening of Section 907's provisions in FY 1998, U.S. Government-funded democracy programs in Azerbaijan expanded to include programs to promote free and fair elections. The on-the-ground presence of USAID-supported U.S. non-governmental organizations (NGOs) such as the National Democratic Institute (NDI) and the International Foundation for Election Systems (IFES) helped ensure that the Azerbaijani public was better informed about the electoral process, and that election officials received training in the implementation of the country's new law on presidential elections. NDI and IFES provided technical assistance to Azerbaijan's Central Electoral Commission (CEC), and implemented voter education and election observation programs. NDI also implemented a civic education program and provided commentary on the electoral process. In preparation for the municipal elections that were held on December 12, 1999, IFES conducted training of the territorial-level election commissions (TECs) that manage electoral operations in the municipalities. IFES helped the TECs determine municipal boundaries, draft instructions and organize training for election officials, monitor compliance with the election law, arrange ballot printing, approve rules for local-level election commissions, and distribute administrative funds. In FY 1999, the International Republican Institute

(IRI) also established an on-the-ground presence in Azerbaijan. Both NDI and IRI provided technical assistance to the country's reform-oriented political parties.

USAID Independent Media Programs: The USAID grantee Internews has been working in Azerbaijan since 1995, helping Azerbaijani independent television stations produce and exchange programming through its South Caucasus Exchange Program, a highly successful regional program-sharing effort. In FY 1999, Internews conducted seven in-country seminars, with an average of 15 participants each. Through USAID's training provider, the Academy for Educational Development (AED), Internews sent 15 Azerbaijani reporters to the United States for training. Internews also helped independent television stations register and obtain broadcast licenses. This was an especially important activity, as the Government of Azerbaijan worked in a variety of ways to prevent independent stations from becoming registered and operational. Internews was well prepared for changes to media registration procedures introduced by the Azerbaijani Government in FY 1998. With help from Internews, two stations were able to register immediately after the procedures changed, although they did experience some complications. Internews also translated into Azerbaijani a manual on media coverage of an election, which was then distributed to representatives of Azerbaijan's electronic media. Ultimately, however, U.S. Government-funded efforts in this area were hindered by the unfavorable environment for independent media in Azerbaijan: in mid-October 1999, the Government of Azerbaijan forced four independent television broadcasting stations to suspend their operations.

USAID NGO Development Programs: Since 1995, the USAID-funded U.S. NGO Initiative for Social Action and Renewal in Eurasia (ISAR) has awarded 112 grants to local Azerbaijani NGOs working in the environmental and social sectors, including 35 grants in FY 1999. ISAR also provided organizational development assistance to NGOs working in other sectors. In FY 1999, ISAR trained 140 people representing 85 NGOs, and a total of 200 NGOs subscribed to ISAR's bulletin. To date, ISAR's grant program has directly benefited almost 43,000 individuals.

ABA/CEELI Rule of Law Program: In FY 1999, the American Bar Association's Central and East European Law Initiative (ABA/CEELI) initiated a USAID-funded rule of law program in Azerbaijan. ABA/CEELI worked on various private-sector legal issues, including the review and possible revision of Azerbaijan's NGO law and the creation of bar associations and judges' associations.

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission awarded 19 grants totaling over \$208,000 in FY 1999 to Azerbaijani NGOs involved in developing books, pamphlets and other educational materials, conducting seminars and courses, and organizing associations and conferences on topics related to democracy and civil society. A number of these projects, including a series of democracy readers for secondary school students, have attracted additional funding for mass publication from other sources, including the Soros-funded Open Society Institute, the Norwegian Refugee Council and UNICEF. Democracy Commission-supported programs on human rights and civic education were so enthusiastically received that aspects of these programs will be used on a wider scale by other organizations in Azerbaijan, including state agencies. A Democracy Commission grant was also awarded to support the creation of a human rights center where participating NGOs will have access to office and meeting space, computers, faxes, phones, e-mail and the Internet, in return for providing staff to the center eight hours per week. Due to the current political environment in Azerbaijan, which is making it very difficult for NGOs involved in human rights work to carry out their activities, some 11 NGOs had expressed a need for an improved working environment in which to perform their activities and access communications technology.

USIA Internet Access and Training Program (IATP): Since beginning operations in Azerbaijan in early 1998, IATP has provided computer training and much-needed Internet access to over 3,000 scholars, journalists and other Azerbaijanis. USIA opened three Internet centers in Baku, all of which provide training, as well as reliable access to information. In a country starved for the Internet, and where one hour of on-line access time costs the equivalent of a university professor's typical weekly salary, IATP has been widely acclaimed as one of the U.S. Government's most important contributions.

Security Programs

The risk of proliferation of weapons of mass destruction (WMD) and associated delivery systems, materials, technologies and expertise in or through Azerbaijan is of great concern to the U.S. Government, which is working with the Azerbaijani Government to enhance its ability to prevent the proliferation of WMD and conventional arms and to encourage efforts to halt the trans-shipment of narcotics across its borders. By intercepting shipments of concern, the Government of Azerbaijan has demonstrated that it takes these issues seriously. The U.S. Government has responded with modest export control assistance programs funded through the Nonproliferation, Antiterrorism, Demining and Related (NADR) Programs account.

Azerbaijan's maritime region has enormous potential for both legitimate and illegal commerce, but the Azerbaijani agencies responsible for maritime law enforcement are sorely in need of resources to conduct surveillance and boardings in the Caspian Sea and port-security training for maritime enforcement agencies in Baku. Without these resources, the Government of Azerbaijan has an extremely limited ability to conduct any maritime operations, particularly export control and nonproliferation. In FY 1999, U.S. Government agencies cooperated to design an implementation plan for an integrated nonproliferation maritime support program that would include training exercises for maritime law enforcement agencies, as well as provision of necessary equipment, and would be implemented in FY 2000-01.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded a total of \$470,000 in grants to Azerbaijani NGOs and professional and business associations, including an indigenous press association that has been working with the National Assembly (parliament) to reform the country's media law. In October 1998, the Foundation initiated a South Caucasus Synergy Program designed to facilitate greater contact and cooperation among leading NGOs in Armenia, Azerbaijan and Georgia through support for cross-border projects in such areas as business development, legal reform, civil society-building, and public administration. The Eurasia Foundation also awarded a grant to provide training to Azerbaijani print journalists on campaign coverage. (Please see Eurasia Foundation section in Part III of this report.)

Preview of FY 2000 Programs

The U.S. Government assistance program for Azerbaijan is being revised to meet Azerbaijan's evolving needs. Beginning in FY 2000, a proposed three-year transitional program will focus on creating economic development opportunities through private-sector business development and job creation. This transitional program will also continue to address the alleviation of human suffering, while beginning to shift its focus from humanitarian relief to development assistance. In FY 2000, the U.S. Government will continue to increase the proportion of assistance resources going to support democratic pluralism and private-sector development in Azerbaijan. Under this transitional program, support will be provided for demining, resettlement and rehabilitation efforts in some of the areas of the country previously occupied by Armenian military forces. The U.S. Government will also continue to implement activities to assist victims of the Nagorno-Karabakh conflict. USAID training programs will increasingly focus on economics and business development. More emphasis will also be placed on strengthening the capacity of private-sector businesses, indigenous NGOs and PVOs, and community groups to assume a larger role in the country's economic and social development process. U.S. Government assistance will continue to promote more responsive, transparent and accountable democratic governance through increased participation of informed citizens in the country's economic and political life. Programs to strengthen NGOs, political parties, independent media and basic civic education will continue. Exchanges will continue to engage the next generation of Azerbaijani leaders. In addition, USAID will continue programs designed to stimulate Azerbaijan's nascent private sector, focusing on small to medium-sized enterprise and agribusiness development, training and related areas. Credit and village-banking programs will constitute the centerpiece of this effort, which will emphasize job creation. In the event of a peace settlement, the U.S. Government will continue to provide humanitarian assistance while participating in a major multi-donor effort to assist with resettlement of persons displaced by the conflict and reconstruction of damaged infrastructure. A peace settlement would also provide an appropriate environment for expanding overall support for economic restructuring and growth objectives.

Under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will increase assistance to prevent the proliferation of weapons of mass destruction (WMD), weapons technology and expertise in Azerbaijan in FY 2000. U.S. export-control assistance programs will provide training and equipment to Azerbaijan's Customs Service and Border Guards to improve the country's export control infrastructure and expand its capabilities to prevent WMD proliferation. The U.S. Government will also initiate programs designed to redirect former Soviet WMD scientists to peaceful research.

BELARUS

Political Overview

In FY 1999, Belarus continued to strengthen its authoritarian government and centrally controlled economy. Since the illegal constitutional referendum of November 1996, through which President Lukashenko extended his term in office and which resulted in the dissolution of Belarus's legitimate parliament, rule by presidential decree has extended to all aspects of Belarusian society, without any effective checks from the legislative or judicial branches. Government harassment of the

political opposition and NGOs increased in FY 1999, as did the government's tight control over property. State security services continued to use force and administrative sanctions to intimidate and threaten supporters of the opposition, attacked the participants of a peaceful Freedom March in October 1999, and appeared to be implicated in the disappearance of prominent opposition leaders. NGOs and independent media were subjected to increased intimidation and onerous re-registration processes, as part of a concerted Belarusian Government effort to thwart independent activity by citizens at the community level. Opposition political leaders nevertheless remained determined and courageous in challenging the government and its policies and, despite the lack of any signal of good will from the regime, entered into an OSCE-sponsored dialogue with the government on the question of organizing parliamentary elections in 2000. Due to the regime's intransigence, the talks have made hardly any progress.

Economic Overview

The Belarusian Government moved closer to restoring a Soviet-style command economy in FY 1999, attacking private market vendors with numerous new restrictions and establishing an administrative basis for the confiscation of property without due process or compensation. Although massive credits to the debt-ridden state sector allowed government officials to claim economic growth, living standards declined for many segments of Belarusian society, as wages were eroded by high inflation. Significant and sustained depreciation in the value of the Belarusian ruble resulted in a critical shortage of foreign currency. Basic necessities produced and needed in Belarus were exported, primarily to Russia, to help pay for imported fuel for Belarus's energy sector. According to polls conducted by the Ministry of Economy, most Belarusian households anticipated that their economic status would continue to worsen. Largely due to this public perception, polls taken in early 1999 revealed—for the first time in several years—a small but significant shift away from steadfast support of the president, towards economic and democratic reform.

Overview of U.S. Government Assistance

U.S. Government assistance to Belarus remained modest in FY 1999, due to Belarus's poor record on economic and democratic reforms. The U.S. Government provided an estimated \$29.44 million in assistance to Belarus, including \$11.64 million in FREEDOM Support Act funds, \$830,000 in other U.S. Government funds, and \$16.97 million in Defense Department excess and privately donated humanitarian commodities. Throughout FY 1999, the U.S. Government maintained its policy of selective engagement with the Government of Belarus, a policy adopted after the November 1996 referendum. Under this policy, no new bilateral assistance is channeled through the Government of Belarus, except for humanitarian assistance and programs involving state-run educational institutions.

The U.S. Government's assistance strategy for Belarus is based on developing increased support for democratic reform and a free-market economy among the segment of the population that is either opposed to or agnostic about such reforms, particularly women and those living outside the country's capital, Minsk. The main goal of U.S. Government assistance to Belarus is to motivate Belarusian citizens to assert their rights and take self-reliant action to solve problems important to their families and communities. In FY 1999, U.S. assistance promoted civic participation through private-sector activity at the community level in a number of areas: (1) building respect for the rule of law and democracy; (2) strengthening NGOs and independent media; and (3) encouraging small-scale private enterprise. Small grants were provided to Belarusian community-level groups that, despite the adverse political climate, were introducing elements of democratic society and a private-sector economy.

Democracy Programs

Democracy Fund Small Grants Program: The U.S. Embassy's Democracy Commission began awarding grants in Belarus under this USIA-administered program in January 1997. In FY 1999, the Democracy Commission continued to be a critical element of the U.S. Government's overall strategy to promote the development of a civil society based on the rule of law in Belarus, especially considering the dearth of in-country grant-making programs after the shutting down of the Soros Foundation's office in Minsk in 1997 due to Belarusian Government pressure. Since 1997, the Democracy Commission has awarded a total of 139 grants totaling \$1.6 million in the areas of rule of law, human rights, development of independent media, and civic empowerment. A total of 87 grants with an aggregate value of approximately \$1.06 million were awarded during FY 1999 in support of print and electronic media, independent trade unions, youth and women's groups, human rights groups and other democratically oriented organizations. Although the grants are limited in size (individual grants do not exceed \$24,000, with most falling between \$5,000 and \$15,000), they have proved to be an effective vehicle for supporting pro-reform segments of Belarusian society, especially at the local level. Despite a difficult working environment, the disbursement of Democracy Commission grants was achieved without serious problems, although many grantees re-

ported harassment by the Belarusian Government in the form of frequent searches of their premises, expulsion from rented offices, tax audits and, in the case of the human rights center Vyasna '96, the seizure of electronic equipment provided through a Democracy Commission grant.

American Bar Association – Central and East European Law Initiative (ABA/CEELI): With support from USAID, ABA/CEELI has been implementing local legal education programs and strengthening professional legal associations in Belarus since August 1992. In FY 1999, ABA/CEELI continued to work with the legal profession in Belarus to improve its capability to provide legal services and to expand those services throughout the country. With ABA/CEELI assistance, Belarusian organizations successfully stimulated the public's demand for legal services and protection of citizens' rights, by conducting public education programs at the community level. In partnership with the Brest Lawyers' Association, ABA/CEELI conducted a series of community seminars devoted to human rights, as part of its highly successful "street law" program designed to educate Belarusian citizens on the rule of law—a program that is being replicated nationwide. In FY 1999, ABA/CEELI continued to support the provision of legal services to targeted groups, including independent trade unionists, women and families. Despite increasingly restrictive regulations and abuses of rights by the Lukashenko regime, ABA/CEELI helped improve the skills of attorneys and judges in protecting the rights of citizens, through its support for professional associations, training and publications, especially for younger lawyers just starting their careers. ABA/CEELI's local counterparts often faced harassment and direct opposition from Belarusian Government authorities. Despite these obstacles, however, ABA/CEELI expanded its rule-of-law activities throughout Belarus.

IREX ProMedia Program: In mid-1997, USAID initiated support for the development of independent media in Belarus through the ProMedia Program implemented by the International Research and Exchanges Board (IREX). In FY 1999, the ProMedia Program continued to provide professional journalistic and management assistance, with the goal of increasing independent media's ability to better inform Belarusian citizens. ProMedia continued to operate a photo service, text archive and an Internet website, which are used regularly by at least eleven local newspapers. Short-term training courses for Belarusian journalists on topics such as AIDS and economic policy provided them with the background information needed to understand these complex issues, as well as improving their fact-finding and reporting skills. ProMedia also provided access to foreign news available through the Internet. Although distribution of independent newspapers continued to be problematic in FY 1999 due to government control of kiosks, distribution grew steadily, and surveys indicated that multiple readers shared single copies.

International Republican Institute (IRI): In FY 1999, IRI brought Belarusian political party activists to Ukraine to participate in regional seminars on the basic elements of political party-building. These USAID-funded seminars brought together political party activists from Ukraine, Moldova and Belarus to learn about effective methods of educating the public on political issues and conducting community outreach. Although IRI did not have an office in Belarus, IRI's Ukraine-based programs provided a cost-effective means of training Belarusian political professionals and volunteers, particularly youth activists and women's political groups.

Counterpart Alliance for Partnership (CAP) NGO Development Program: USAID began funding CAP's Belarus program in September 1997 in an effort to demonstrate how community-based organizations can meet the needs of disadvantaged individuals without relying on the government. Leaders of Belarusian NGOs are typically highly-motivated community members (for example, parents of disabled children and relatives of elderly people) who are seeking help because their burden of care exceeds their capabilities. However, organizing and participating in an NGO is a new experience for most Belarusians—one that improves their understanding of the role of the non-governmental sector in a democratic system. CAP trains Belarusian NGO representatives in management and project design, working through a network of regional CAP trainers and NGO advisors. CAP awards grants averaging \$15,000 to local NGOs for social services, AIDS/HIV-prevention activities and advocacy for Belarus's most vulnerable groups, including the elderly, disabled, at-risk children and youth, and drug and alcohol abusers. In addition, CAP-supported attorneys worked directly with Belarusian NGOs during the onerous NGO re-registration process.

Training and Exchange Programs

Since FY 1993, U.S. Government-funded exchange programs have brought over 1,750 Belarusian citizens to the United States for short-term professional or long-term academic training, including some 350 in FY 1999 alone. These programs are giving reform-oriented Belarusians an opportunity to develop their skills and establish contacts with U.S. counterparts, thus providing an important source of moral support for Belarusian reformers.

U.S. Information Agency (USIA) Exchanges: In FY 1999, USIA exchange programs continued to be a key component of the U.S. Government's strategy to assist those Belarusians who are struggling to introduce democratic and economic reforms in their home country: over 135 Belarusians participated in academic exchange programs and over 200 in professional exchange programs. USIA's Community Connections Program, which was launched in Belarus in 1997, provides community-based U.S. internships for Belarusian entrepreneurs and NGO leaders. A total of 100 people from five cities in Belarus traveled to the United States for short-term professional training during FY 1999. USIA also sent groups of Belarusians to the United States for professional training in areas such as education, small business development, youth NGOs and information technology. In addition, USIA brought U.S. specialists from various disciplines to Belarus to give lectures and consult with local counterparts; for example, one specialist advised the Minsk Civic Education Center on the creation of a secondary school civics curriculum.

USAID Training: In conjunction with the U.S. Government's Northern Europe Initiative (NEI), USAID funded a two-week training program in fall 1999 for 20 Belarusian entrepreneurs at the Panevezys Business School in Kaunas, Lithuania, focusing on business management, financial management, marketing, human-resource planning and related areas. In addition, USAID's Global Training for Development (GTD) Project provided U.S.-based training to five Belarusian participants.

Economic Development Programs

International Finance Corporation (IFC) Small-Scale Privatization Program: Since mid-1993, the IFC's Small-Scale Privatization Program has helped transfer municipally owned small businesses to private ownership, with privatization proceeds going to community budgets to support schools, public transportation and health facilities. In FY 1999, IFC continued to provide a full range of consulting, technical and legal services to cities throughout Belarus. IFC is currently operational in 23 cities, where over 2,000 properties have been transferred to private ownership—almost half of the trade and services businesses eligible for privatization. In addition, IFC continued to support the formation of condominium associations, provide training to business consultants and conduct business courses. Despite the lack of progress in structural economic reform in Belarus, the privatization of businesses has proven successful and has encouraged neighboring state-owned enterprises to adopt competitive practices.

USAID Farmer-to-Farmer Program: Since April 1993, some 120 U.S. volunteers have completed projects in Belarus under the Farmer-to-Farmer Program, which is implemented by Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA). In FY 1999, ACDI/VOCA implemented programs focusing on agricultural entrepreneurs, rural education and training, agricultural reform and privatization, and environmental improvement in rural areas. ACDI/VOCA's highly effective small-scale programs also provided assistance to private farmers and entrepreneurs in the agricultural production and processing sectors. There are over 2,000 private farmers in Belarus, who provide compelling evidence of the superiority of private-sector production compared to that of Belarus's highly subsidized state-owned farms: most of the food consumed in Belarus is produced on private farms, and private farmers and agribusiness owners are highly receptive to improvements in production and processing. In addition to providing direct technical assistance, ACDI/VOCA volunteers disseminated information on technology and management methods through newsletters and community appearances.

Social-Sector and Humanitarian Programs

USAID Hospital Partnerships: In FY 1999, USAID continued to fund the American International Health Alliance's (AIHA) Hospital Partnership Program in Belarus. AIHA has partnered the Magee Women's and Children's Hospitals of Pittsburgh and the University of Pittsburgh Schools of Medicine and Nursing with four Minsk-based medical institutions: the Minsk Medical Institute, Children's Hospital No. 4, the Radiation Medicine Institute, and Maternity Hospital No. 2. Since its formation in March 1993, the partnership has focused primarily on pediatrics, medical education reform, gastroenterology, nursing reform, women's health and poison control. With support from its U.S. partners, the Women's Wellness Center at Maternity Hospital No. 2 offered special education and outreach programs for adolescents, and Minsk Medical Institute administrators worked with their Pittsburgh colleagues to redesign the school's curriculum and teaching methodologies. The U.S. partners also helped the nursing staff of Children's Hospital No. 4 to upgrade its skills. AIHA closed out these six-year-old partnerships in FY 1999, providing a sustainability grant to the Women's Wellness Center, and began planning for new partnerships that will begin in FY 2000.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided \$145 million in humanitarian assistance to Belarus. In FY 1999, the Office of the Coordinator of U.S. Assistance

to the NIS continued to fund the delivery of U.S. Defense Department excess and privately donated humanitarian commodities to Belarus. At a cost of \$410,000, the Coordinator's Office delivered almost \$17 million in humanitarian assistance to Belarus in FY 1999, most of which was donated by U.S. citizens and private voluntary organizations (PVOs) and directed to victims of the Chernobyl accident, with an emphasis on aid to children and the elderly. USAID and the Department of State also continued to fund the Counterpart Humanitarian Assistance Program (CHAP), which locates Defense Department excess commodities at closing U.S. military bases and delivers them to hospitals, orphanages and social service-oriented NGOs in Belarus. Under a grant from the Coordinator's Office, the PVO CitiHope conducted four airlifts of high-value pharmaceuticals to Belarus in FY 1999.

Security Programs

As it has for the past several years, Belarus remained ineligible to receive U.S. Government-funded security-related assistance in FY 1999. Beginning in February 1997, the President of the United States de-certified Belarus under the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program due to its poor record on human rights, resulting in the suspension and reallocation to other countries of unobligated CTR funds originally intended for Belarus.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1999, the USAID-supported Eurasia Foundation awarded \$1.08 million in grants in support of independent media, civil society, public administration, civic education and economics education in Belarus. As a private foundation, the Eurasia Foundation was able to leverage funds from other donors, increasing its program budget by some 50 percent beyond its USAID funding. Working from its permanent representative office in Minsk, the Foundation provided ongoing support to Belarusian regional independent media and NGOs working to promote the rule of law, human rights, business development, electronic communications and management training. In cooperation with the East-West Institute, the Foundation co-hosted meetings of donors and prospective funders in Prague and Kiev to discuss program opportunities in Belarus.

Preview of FY 2000 Programs

In FY 2000, U.S. Government-funded assistance programs will seek to demonstrate to people throughout Belarus the value of democratic institutions and free markets, by familiarizing them with community-level institutions. The U.S. Government will also provide expanded democracy assistance in preparation for anticipated parliamentary elections in 2000. Legal reform and independent media activities will focus more attention on the protection of basic rights. USAID programs will focus on helping Belarusian citizens find local solutions to problems affecting their daily lives, through participation in NGOs or private-sector enterprises. These private-sector efforts will be concentrated in the Gomel and Brest Oblasts (Regions), which are still suffering from the effects of the Chernobyl nuclear accident. Pending the availability of funds, a new model community health services project will provide preventive and primary health care in Gomel, and an international NGO will introduce comprehensive community development programs.

GEORGIA

Political and Economic Overview

Georgia registered some solid successes in political and economic reform in 1999. Successful parliamentary elections in October 1999 were an important milestone in Georgia's democratic reform process, and the country's ambitious judicial reform program continued to increase the independence of the judiciary, with 176 judges passing a qualifying process, now standard for new judges. The privatization of Georgia's energy sector continued in FY 1999, with the successful tender of Tbilisi's main power plant, the Gardabani thermal plant, to a U.S. firm and the tender of the remaining electric-power clusters throughout the country. The continued implementation of private and commercial land titling furthered the development of a land market in Georgia. Georgia acceded to the Council of Europe in April and is expected to accede to the World Trade Organization (WTO) in early 2000, reflecting international recognition of how far Georgia has come and of Georgia's commitment to undertake further reforms in both the economic and human-rights spheres. However, these accomplishments were overshadowed by a growing economic crisis caused by a failure to undertake other key reforms, such as fighting corruption and improving revenues. Salary, pension and other government arrears continued to accrue, and Georgia's electricity supply remained problematic. Nevertheless, the National Bank of Georgia maintained a tight monetary policy, managed to control inflation and kept the country's national currency, the lari, relatively stable. Progress toward a

resolution of ethnic separatist disputes in Abkhazia and South Ossetia was slow in the run-up to the October 1999 parliamentary elections. The United States, as a member of the Friends of the Secretary General on Georgia, was an active participant in the United Nations-led attempt to find a resolution to the conflict that would support Georgian territorial integrity. The U.S. Government is also actively engaged in the OSCE-led process in South Ossetia.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$146.87 million in assistance to Georgia, including \$84.36 million in FREEDOM Support Act funds, \$18.43 million in other U.S. Government funds, a \$5 million concessional food aid loan under USDA's P.L. 480 Title I Program, and \$39.08 million in U.S. Defense Department excess and privately donated humanitarian commodities. U.S. Government-funded assistance programs, which continued to shift from a humanitarian focus to a developmental focus in FY 1999, supported comprehensive market reform, economic restructuring, energy-sector reform, democracy-building, the enhancement of Georgia's capability to control its borders and the creation of a military that can meet Georgia's security needs. The U.S. Government's assistance efforts were guided by a Five-Point Program developed in early 1999 with the substantial involvement of the U.S. Embassy and adopted in full by the Georgian Government. The Five-Point Program stresses anti-corruption efforts, land reform, privatization (especially in the energy sector), the development of small and medium-sized businesses, and tax and revenue enhancement. Of the FREEDOM Support Act-funded assistance provided to Georgia in FY 1999, USAID programs accounted for \$51.4 million, including \$8.2 million in humanitarian assistance, \$20.8 million in economic reform programs, \$6.45 million in energy-sector restructuring programs, \$5.3 million in health-care programs, \$8.65 million in democratic reform programs and \$2.0 million in cross-sectoral activities.

Training, Exchange and Educational Reform Programs

Since FY 1993, U.S. Government-funded exchange programs have brought over 1,900 Georgian citizens to the United States for short-term professional or long-term academic training, including some 475 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training: In FY 1999, over 1,000 Georgians participated in USAID-funded training programs: over 150 of them in U.S.-based programs, over 90 in third-country programs, and over 780 in in-country programs. Of this total, over 600 participants received training in the area of social stabilization, over 200 in democratic reform and over 150 in economic restructuring.

U.S. Information Agency (USIA) Exchanges: In FY 1999, some 174 Georgian citizens participated in USIA professional exchange programs, and 129 in academic exchange programs. Since beginning operations in Georgia in FY 1997, USIA's Community Connections Program has sent over 250 Georgians to the United States for short-term community-based internships. The 100 participants sent in FY 1999 included winegrowers, agricultural credit and education specialists, and teachers of the disabled. In July, USIA organized a special International Visitors (IV) program for State Minister Vazha Lordkipanidze focusing on U.S. fiscal policy, taxation, federalism, methods of halting corruption, conflict of interest and ethics in government. Also in FY 1999, 50 Georgian students studied in U.S. high schools under USIA's Future Leaders Exchange (FLEX) Program, including three students from Abkhazia; 21 students attended U.S. universities under USIA's FREEDOM Support Act (FSA) Undergraduate Exchanges Program, including two students from Abkhazia; and 22 graduate students traveled to the United States for one- to two-year master's and non-degree programs under the Muskie Graduate Fellowship Program. Notably, several Muskie Program alumni currently hold influential positions in the Georgian Government, including the Minister of Finance, Director of the Budget Department of the Ministry of Finance, Minister of Trade and Foreign Economic Relations, Deputy Minister of State Property Management, Chairman of the Citizen's Union of Georgia (CUG) faction in the Georgian parliament, and Adviser to the Minister of State Security.

USIA Secondary School Partnership Program: FY 1999 was the fourth year of activity for USIA's secondary school partnership program in Georgia, which is implemented by the Frank Foundation. Under the program, U.S. high-school students spend a month in Georgia, and Georgian students spend from one to six months in the United States. Both groups study language, history, and civics and plan extracurricular activities that support community service and volunteerism, civic responsibility and leadership. In FY 1999 funding was provided for 22 Georgian and 22 U.S. participants. A total of 102 Georgian and American students and 18 Georgian and American educators have participated in the program since its inception. The first group of participants was comprised of students who were orphans or internally displaced persons (IDPs). Upon returning home, they founded a non-governmental organization called "Frank Children" whose mission is to

help the needy and the elderly through volunteer work, and they have also been involved with subsequent groups of exchange program participants, taking part in pre-departure orientations and debriefings.

USIA / Eurasia Foundation University Partnership Program: USIA provided a \$300,000 grant to Georgia State University in Atlanta to support an upper-division undergraduate program in business administration (BBA) at a consortium of three educational institutions in Tbilisi. In addition, a complementary \$300,000 grant from the Eurasia Foundation supported the establishment of a master's degree program in business administration (MBA) at the consortium. In FY 1999, 35 students were enrolled in the BBA program, which sent its first group of faculty to Atlanta for training, and 27 were enrolled in the MBA program.

USIA Public Administration Programs: In FY 1999, USIA provided a \$286,000 university partnership grant to the Carl Vinson Institute at the University of Georgia in Athens for a partnership with the private International Training Center in Tbilisi to develop public administration education and outreach programs in the field of environmental policy and management. The University of Georgia will contribute almost \$232,000 in cost-sharing to the partnership, and the International Training Center will contribute almost \$17,000. USIA also continued to support the Georgian Institute of Public Administration (GIPA) at a level of \$200,000 per year. GIPA confers a one-year master's degree in public administration to about 35 students each year (a total of 149 since its establishment in 1994), who are taught by American faculty recruited by the U.S. National Academy of Public Administration (NAPA). GIPA students work in the presidential administration, the parliament, various ministries, and the private sector, and pledge to abide by a code of conduct written by GIPA's first class of graduates. Plans are being developed to strengthen and expand GIPA's academic program, make GIPA self-sustaining over the next 10 years, and to raise its profile as a national and regional center dedicated to good governance and civil society-building.

USIA Civic Education Programs: In FY 1999, a USIA-funded consultant worked with the U.S. Embassy's Public Affairs Office to select a Georgian NGO to implement a \$200,000 civic-education curriculum development program for Georgia's secondary schools. This project, which was approved by the Minister of Education, will bring Georgians to the United States for training in curriculum development and adaptation.

USIA / Eurasia Foundation Economics Textbook Program: To support the further development of economics education in Georgia, USIA, the Eurasia Foundation, and the Soros Foundation are funding the publication of a Georgian-language version of Harvard University economist Gregory Mankiw's textbook *Principles of Economics*. USIA contributed over \$32,000 to this \$57,000 project, which began in FY 1998 and will be completed in mid-FY 2000. This book will be the first college-level Georgian-language textbook on economics, and it will be made available throughout the country.

USIA Support for Student Advising Centers: Through a grant to the Soros Foundation, USIA supported student advising centers in Tbilisi, Batumi and Telavi. The centers' Georgian staff have received U.S.-based training on how to assist the more than 1,000 students per month who use the centers to learn about study opportunities in the United States and Europe. The Tbilisi center, which was opened in September 1995, is used by 600 students per month and receives 400 phone calls per month. The Telavi center, which was opened in October 1997, serves 300 to 400 students per month, and the Batumi center, which was opened in April 1998, serves 400 students per month.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, 12 Georgian participants were selected for USDA's Cochran Fellowship Program, which provides individually tailored training programs for specialists in the areas of agriculture, agri-business development, and agricultural trading. Program topics included seed production, soy utilization processing, and banking and finance strategies, the latter topic having been presented by USDA's Foreign Agricultural Service.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships for eight Georgian participants. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

Economic Restructuring Programs

USAID Comprehensive Market Reform Program (CMRP): The CMRP consists of five components: tax and fiscal reform activities to support the establishment of a modern and transparent tax administration, support for land privatization, support for the privatization of the Port of Poti, accounting reform activities, and capital-market infrastructure development

activities. Together, these programs are designed to create the macro-economic conditions necessary to revitalize Georgia's economy.

- **Tax and Fiscal Reform Program:** In FY 1999, USAID's Tax and Fiscal Program continued to focus on tax policy, the tax code, and tax administration. A phase of concentrated revenue mobilization activities initially led to substantial improvement in the collection of excise taxes on cigarettes, but unfortunately these efforts were not sustained by Georgia's Tax Inspectorate, which must be comprehensively reorganized if it is to normalize its tax collections. A plan for such a fundamental reorganization has been developed and submitted to the Government of Georgia, which is in the process of reorganizing its revenue-generating agencies. In early 2000, the Georgian Government began to implement this reorganization by establishing a new Ministry of Revenue.
- **Privatization Assistance:** USAID provided technical assistance to the Georgian Government in the area of land privatization. USAID's implementing contractor established a legal team in the Georgian parliament to advise parliamentarians on key issues related to land markets. Analyses carried out by this team, as well as the activities of various citizens' groups, were instrumental in establishing the legal framework necessary for the privatization of commercial and agricultural land in Georgia. With the help of USAID technical assistance in the surveying, registering and titling of commercial and agricultural land, 4,000 enterprises now own their land and more than 150,000 farmers received titles to their land for the first time. More importantly, a land market began to emerge in Georgia in FY 1999, as 400 commercial plots had been resold to private parties and 400 had been mortgaged for credit.
- **Accounting Reform Programs:** In FY 1999, USAID-funded activities in this area focused on bringing accounting practices in Georgia up to international standards and led to the establishment and growth of the Georgian Federation of Professional Accountants and Auditors, which now has more than 1,200 members. USAID training facilitated the formation of a cadre of 650 Georgian professionals educated in market-oriented accounting principles and practices, which are now being used effectively in enterprises, auditing firms, and development organizations, resulting in a surging demand for training services in these new accounting and auditing systems, as well as for vastly improved standards of transparency and accountability in the private sector.
- **Capital Markets Development Program:** During the third quarter of FY 1999, the National Securities Commission (NSC) was constituted in accordance with Georgia's Law on Securities Markets. Three Georgian NSC commissioners were appointed and won parliamentary approval. In addition, an amendment to the securities law providing for the appointment of two foreign NSC commissioners was passed, and they were selected in early FY 2000. In September, the NSC licensed the Georgian Stock Exchange (GSE) to operate as a stock exchange and a self-regulatory organization. The GSE selected as its operating system the Russian Trading System (RTS), which was being installed for an anticipated start of trading in early 2000.

USAID Banker Training Programs: In FY 1999, USAID provided finance education and retraining to employees of Georgia's commercial banks. In cooperation with five leading Georgian banks, USAID helped establish a non-governmental organization (NGO) whose mission is to provide training to individuals employed in the banking and finance sectors. The NGO implemented a training-of-trainers program, as a result of which 51 banker training courses and seminars were offered to a total of 950 participants. USAID also provided technical assistance in electronic payment systems to the National Bank of Georgia.

USAID Seed Production Programs: In an effort to help re-establish a seed industry in Georgia, USAID supported the formation of viable and sustainable seed-production enterprises that can provide improved quality seed and better technical and financial management systems for seed production. Approximately 15 seed enterprises participated directly in these commercial seed-production activities.

USAID Assistance to Small and Medium-Sized Enterprises (SMEs): In FY 1999, USAID provided financial and technical support for the development of SMEs in Georgia. Through its Caucasus SME Finance Program, USAID established partnerships with three leading Georgian commercial banks (TBC Bank, TbilComBank, and the Bank of Georgia) to provide loans to SMEs throughout Georgia. USAID facilitated the training of loan officers and credit committee members. As a result of these activities, 48 SME loan proposals were approved and over \$1.55 million was disbursed to private companies. In order to increase access to credit for micro-enterprises in Tbilisi and other regions of Georgia, USAID laid the groundwork for a two-year program to strengthen a local NGO that provides financial services to low-income women micro-entrepreneurs. To date, the Caucasus SME finance program has provided micro-credit to 8,379 Georgian entrepreneurs.

In addition, U.S. volunteer senior executives worked with enterprises and business service organizations (including business associations) in thirteen cities throughout Georgia, providing technical, managerial, and business planning assistance.

USAID Agri-Business Programs: In FY 1999, USAID helped Georgian private farmers and agri-businesses gain access to credit by supporting independent, user-owned and controlled credit cooperatives, with the goal of promoting the establishment of a sustainable source of financing for farmers and agri-businesses in various regions of Georgia.

U.S. Department of the Treasury – Technical Advisors: In FY 1999, the Treasury Department sponsored three advisors to the Government of Georgia: one in budget policy and management, one in government debt issuance and management, and one in tax policy and administration. The advisors worked to strengthen the capacity of their Georgian colleagues on government finance issues, including budgeting, revenue collection, and the issuance of treasury bills. (Please see Treasury Department section in Part III of this report.)

Other Budget Reform Programs: The U.S. Embassy's Public Affairs Office organized an International Visitor (IV) program designed to provide participants from the parliament and Ministry of Finance with practical training on how budgets are made, forecast and analyzed, and how spending authorities are devolved in systems that are not centralized. These training programs were designed in cooperation with the U.S. Treasury Department's resident budget advisor and a USAID contractor working on budget reform. A total of 50 Georgians participated in the training, which helped them in their subsequent efforts to reorganize the Ministry of Finance, make the budget-making process more transparent and budget estimates more realistic, and manage the devolution of spending authorities.

Support for Regional Business Development: The U.S. Embassy's Democracy Commission awarded a \$9,000 grant to the Business Law Center, a Georgian NGO, to prepare and disseminate two types of business-development information: a 100-page document on legislation enacted by the Georgian parliament was distributed to 12 regional anti-monopoly services, and a semi-monthly bulletin containing legislation and discussion of laws affecting the economy was sent to courts in 60 regions throughout Georgia. This project, which aims to assist regional business development by reducing information gaps on new laws and regulations designed to assist entrepreneurs in the regions, has already prevented a mistake in one regional court by providing it with the latest information on bankruptcy laws.

Trade and Investment Programs

In FY 1999, the U.S. Government worked with the Georgian Government to help develop a legal and regulatory environment conducive to free trade and investment.

Support for WTO Accession: In FY 1999, USAID helped Georgia maintain its "fast-track" status for accession to the World Trade Organization (WTO). This assistance helped Georgia create the legislative framework to meet WTO obligations, thereby promoting free trade and investment in Georgia. On October 6, 1999, the WTO General Council approved Georgia's membership in the WTO, and the Georgian parliament is expected to ratify WTO accession documents in early 2000. In September 1999, two representatives from the Georgian Ministry of Trade and Foreign Economic Relations participated in a USIA International Visitors (IV) program on U.S. trade and world markets to help prepare part of the Georgian Government's delegation to the WTO conference in Seattle. During the course of the program, the participants gained an understanding of American-style legislative lobbying.

USIA Business Exchanges: In FY 1999, USIA brought 50 Georgian entrepreneurs to the United States under the business component of its Community Connections Program, which places groups of participants from a particular Georgian city or region in a single U.S. city for four- to five-week internships in U.S. businesses. Internship topics included medicine, the food and beverage industry, travel, retail, insurance, cottage-industry textiles, advertising, and photography. As a result of their U.S. experience, many of the participants instituted significant changes in their work places. Since its introduction in Georgia in FY 1997, the Community Connections Program has sent a total of 100 Georgian entrepreneurs to the United States.

Democracy Programs

In FY 1999, the U.S. Government's comprehensive programs in this area focused on election assistance, the rule of law, assistance to the parliament and independent media, training for local elected officials, NGO development and civil-society building. Activities to strengthen judicial ethics and discipline were carried out as part of the Five Point Plan's focus on combating corruption.

Democracy Fund Small-Grants Program: In FY 1999, the U.S. Embassy's Democracy Commission awarded 13 small grants totaling almost \$81,000 to Georgian NGOs under this USIA-administered program. Since the program's inception in Georgia in 1996, the Commission has awarded 41 grants totaling \$400,000 to 38 organizations. Highlights of FY 1999 grants are provided below:

- The Liberty Institute, one of Georgia's most effective NGOs, received a \$11,400 Democracy Commission grant to implement a project on freedom of religion in Georgia, which will seek to initiate public debate on the issue by organizing six focus-group meetings and 10 seminars, establishing a press club, and preparing and publishing a report on the current status of religious freedom in Georgia.
- A \$2,300 Democracy Commission grant was awarded to the Civics and Debate Teaching Center for a civic-education project that is helping secondary-school teachers develop civics curricula designed to encourage critical thinking, debate and negotiation skills. More than 100 students will benefit from this project, which is co-funded by the Soros Foundation.
- The Center for Democratic Development and Conflict Resolution received a \$7,250 Democracy Commission grant, as well as co-funding from the Winston Foundation, to train 240 teachers, NGO representatives, and government officials in the practical aspects of teaching conflict resolution and prevention.
- The Georgian Young Lawyers' Association received a \$6,800 Democracy Commission grant to expand its legal library, which is widely used by Georgian Government officials, attorneys, NGOs and others. The library will be part of a unique legal training and information center funded by the Soros Foundation that will house a large collection of legal documents, including a wide variety of Georgian, Russian, American and other recent literature on legal issues.
- The Young Lawyers' Union of Abkhazia received a \$8,400 Democracy Commission grant to establish a computer learning center for internally displaced persons (IDPs) in Zugdidi in western Georgia designed to help eliminate the skills gaps that are making it difficult for IDPs to apply for jobs. Some 120 IDPs will learn how to use the Internet, gather and refine information, and create databases.
- The Georgian Constitutional Protection League received a \$3,000 Democracy Commission grant for a project to translate normative acts of international law on ethnic, linguistic and religious minorities into the Abkhaz language, for distribution in Abkhazia. The project, which is co-funded by the Soros Foundation and the British Know-How Fund, will also translate the Georgian Constitution and other documents into Abkhaz, and will promote the maintenance of Abkhaz ethnic identity and the recognition that the state is responsible for protecting the rights of ethnic minorities. The project aims to mobilize public opinion toward a peaceful resolution of the Abkhaz problem.

Anti-Corruption Programs: A key element of the Five Point Plan is support for Georgia's ongoing efforts to fight corruption. In FY 1999, the U.S. Embassy in Tbilisi established a Georgian-American Anti-Corruption Working Group composed of representatives from the U.S. Department of Justice (DOJ), USAID, the Georgian National Security Council and the Georgian parliament. The Working Group, whose mandate was to create a strategy to combat corruption, successfully persuaded the Georgian Government to endorse a plan for the creation of an Anti-Corruption Agency. Other achievements in the battle against corruption included the passage of the Administrative Code, a law on licensing, a law on the enforcement of judgments, and the Criminal Code. In FY 2000, USAID will support a range of activities related to the implementation of several of these laws, including specialized training and public-education campaigns. In September, DOJ sent three Georgian scholars to Yerevan, Armenia, to participate in an anti-corruption conference jointly sponsored by DOJ and the American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI). In addition, 16 Georgians were sent to the International Law Enforcement Academy in Budapest, Hungary, for week-long training on techniques to combat organized crime, and representatives from the General Procurator's Office, the Parliamentary Committee on Anti-Corruption, the Chamber of Control, and the Corruption Research Center were trained in Western-style law enforcement techniques.

USAID Judicial Reform Programs: In FY 1999, U.S. Government-funded judicial reform programs achieved significant results in Georgia. The American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI) helped establish a merit-based judicial selection process, entailing qualification exams and vetting procedures. Since the implementation of this important reform, 176 newly appointed judges passed the exam and are now deciding cases. USAID is helping to train the new judges, providing computers for the courts, and supporting the establishment

of a private judges' association. In addition, USAID-funded assistance facilitated the establishment of two new appellate courts and a new court administration system in May 1999. In June 1999, a new chairman and twelve reform-oriented justices were appointed to Georgia's Supreme Court. USAID is providing technical assistance and basic office equipment to enable the Supreme Court to publish its decisions in a timely manner. However, despite this impressive progress, problems remained. As part of the judicial reform process, judges' salaries were increased tenfold from 30-50 lari a month to 500 lari a month, but the Georgian Government had difficulties paying the new judges their increased salaries. If the judges do not receive an adequate salary in a timely manner, corruption and cynicism could once again prevail. USAID is seeking to facilitate the passage of a judicial discipline law and a code of ethics, an important next step in Georgia's judicial reform process and its battle against corruption. While the Georgian public is generally aware of the appointment of new judges, the public continues to distrust—and be unfamiliar with—their country's legal system. To make matters worse, Georgian citizens generally cannot afford or obtain access to legal counsel, and they face high costs in filing claims. In FY 2000, USAID will pursue a mix of activities to address these problems. In addition concluding a new, three-year cooperative agreement with ABA/CEELI, USAID is designing a new activity to provide continuing support for the rule of law in Georgia.

U.S. Department of Justice (DOJ) – Procuracy Reform Programs: In September 1999, DOJ sponsored a three-day conference in Georgia to formulate a policy on reform of the country's procuracy. The conference brought defense attorneys, prosecutors, academics and government officials from Georgia together with experts from the United States. The conference resulted in an agreement to establish qualifying exams for the procuracy, set up an inspector general's office, and create an independent advisory board. DOJ will support the implementation of these reforms in FY 2000.

USAID Support for Legislative Reform: In FY 1999, several laws critical to furthering democratic rights and market reforms were passed with USAID assistance, specifically the Law on Enforcement of Judgments, Licensing Law, Criminal Code and Administrative Code. The latter is considered to be one of the best in the NIS, and USAID will provide further assistance with its implementation. Passage of these laws was a requirement of the anti-corruption component of the Five-Point Program described above. USAID provided considerable assistance in support of the drafting and passage of these laws and will continue to support their implementation in FY 2000.

USAID Support for the Legal Profession: In FY 1999, USAID continued to work with the Georgian Young Lawyers' Association (GYLA), a progressive and independent private bar association that promotes legal professionalism and provides legal training. In addition, USAID-assisted local NGOs such as Article 42 and the Center for the Protection of Constitutional Rights supported legal clinics that provided practical experience to law students, and conducted public awareness campaigns to inform people of their rights and the means to access legal institutions. In FY 2000, USAID will work with the GYLA and other private-sector lawyers to draft and help enact a law on the bar.

USIA Rule-of-Law Programs: In late FY 1999, the U.S. Embassy's Public Affairs Office organized an International Visitor program for a 12-member group of judges, parliamentarians and NGO representatives on the relationship between the media and the judiciary in the United States. The program exposed the participants to the U.S. experience in media-court relations, an issue that was being debated in Georgia in the context of discussions on the need for new media legislation.

USAID Election-Related Assistance: In FY 1999, USAID-funded assistance in this area increased dramatically. In preparation for the October 1999 parliamentary elections, the National Democratic Institute for International Affairs (NDI), the International Republican Institute (IRI), and the International Foundation for Election Systems (IFES) provided a variety of election-related assistance, including legal assessments of the parliamentary election law, technical assistance to the Central Election Commission, training for over 5,000 election officials, voter mobilization and education campaigns, political party development and training programs, and the training and deployment of 2,200 domestic election observers. Under a USAID-funded program implemented jointly by the Eurasia Foundation and Internews, television equipment and training were awarded to 11 independent television stations outside the capital to promote live candidate debates and call-in shows. Internews also produced a training film for IFES, and a series of voter-education public service announcements (PSAs) and posters. USAID-funded voter education activities reached out to youth, internally displaced persons (IDPs), the military and women.

USAID Parliamentary Assistance: The Georgian parliament has been one of the most active and effective in the NIS, having passed over 500 laws supporting human rights, democratic institutions and a market economy since 1995. With USAID funding, NDI provided support for oversight hearings and other parliamentary capacity-building activities. USAID also provided 91 computers and peripherals and a complete electronic legislative database that will soon be available on the Internet.

USAID / USIA Local Government Programs: Georgia held its first local government council elections in November 1998. Both USAID and USIA supported the election process and provided a wide range of assistance to the newly elected local government officials. USAID assisted in the development of legislation on self-governance, municipal finance and local budgets, provided technical support for the elections, sponsored training and informational handbooks for more than 600 newly elected officials, and funded small grants in support of local initiatives. Meanwhile, USIA sent 40 locally elected officials to the United States through its Community Connections Program to learn about budget and legislative processes, district and city council management and constituent services, and council member-executive branch (i.e., mayor/governor) relations from their U.S. counterparts. Upon their return, several of the participants formed the Councils Association of Georgia (CAG), an increasingly influential association of locally elected officials that seeks to foster regional coordination and national legislation affecting the regions. In FY 1999, the U.S. Embassy's Democracy Commission provided a \$4,000 grant to CAG to start-up a newsletter for distribution to 11,000 district and city councils, as well as to the public and interested institutions. The newsletter, which will publicize the activities of local government councils and advocate the proper implementation of local self-government laws and regulations, aims to become an open forum for the local councils by allowing them to raise issues with CAG leadership and representatives of the national government.

USIA Civil Service Reform Program: Following an assessment of civil service reform efforts in Georgia by a U.S. consultant, USIA organized an International Visitor (IV) program for eight members of the Bureau of Civil Service in Georgia's State Chancellery. The program, which was designed in consultation with the World Bank, allowed the participants to gain experience in merit-based selection, starting with the drafting of position descriptions.

USAID Citizen Participation Programs: With substantial USAID assistance, the number of Georgian NGOs actively debating public-policy issues has grown from four in 1994 to over 100 today, with many of them having regional branch offices. USAID has also helped Georgia's political parties develop their institutional capacity. These parties are now beginning to understand the necessity of public outreach, and in FY 1999, four of the largest parties adopted a caucus system for the selection of candidates by a majority vote—the first public political process of its kind in Georgia's history.

USAID Independent Media Programs: USAID-funded Internews has helped link 16 of Georgia's 34 independent television stations in a nationwide program-sharing network, which in FY 1999 aired investigative reports on corruption in the merchant marine, election fraud and problems between Georgian and Chechen drug lords and the resulting deaths of two police officers. In addition, an Internews-funded lawyer facilitated the passage of a law on freedom of speech, during a special parliamentary session.

USIA Independent Media Programs: In February, USIA organized an International Visitor (IV) program for seven spokespersons from various government agencies in Tbilisi and one spokesperson from Ajara to acquaint them with government-media relations in the United States. Participants familiarized themselves with the legal basis for a free press in the United States and standards of openness between the government and its constituents. Participants returned home with a better understanding of their roles as spokespersons, started to appear more frequently in the press and on television, and had more say in the internal affairs of their agencies and more freedom to represent them.

USIA Information Programs: In FY 1999, the U.S. Embassy's American Center for Information Resources (ACIR) worked to improve Georgia's library system, focusing on three areas: continuing professional education for librarians, library automation, and regional cooperation. The ACIR also facilitated book transfers between the National Parliamentary Library of Georgia (NPLG) and the U.S. Library of Congress. In addition, the ACIR provides answers to thousands of information requests received every year from Georgian Government officials, journalists, NGOs, academics and entrepreneurs on a wide range of subjects. For example, parliamentary staffers routinely research U.S. legislation to help parliamentarians debate Georgian legislation. In FY 1999, more than 50 percent of these information requests were on issues relating to democratic and economic development. USIA also funded a \$147,700 joint program between the Association of Information Specialists (AIS) and the NPLG to translate and adapt international library standards for use in Georgia. The NPLG will use these standards to update its databases, which will then be made available through an intranet to four regional public libraries in Kutaisi, Poti, Telavi and Zugdidi. This multi-year project will also allow on-line access to the NPLG to anyone with a computer and a modem. USIA also funded a \$48,800 project to enhance English-language libraries at five regional libraries. Administered by the English Teachers' Association of Georgia, the project will provide English language instructional materials, literature, and Internet access for local users. Interest in computer literacy and English language is burgeoning in Georgia, as Georgians are associating these skills with the potential for increased income.

USIA Internet Access and Training Program (IATP): In FY 1999, IATP opened a public-access Internet site at the NPLG and received funding in the amount of \$103,000 to open four more sites in Kutaisi and Zugdidi. IATP has already established five access sites in Ozurgeti and Tbilisi that have subsequently become independent. Since the program's inception in spring 1997, over 3,000 Georgians have received hands-on Internet training and 48 Georgians—the majority of them USIA exchange program alumni—became trainers themselves and are now conducting Internet training for other organizations. Approximately 150 Georgians per day are using the five Internet access sites, and 250 are receiving training each month.

Security Programs

Georgia Border Security and Law Enforcement (BSLE) Assistance Program: In FY 1999, the U.S. Government allocated an additional \$17 million to the BSLE Program to help the Georgian Government develop the capabilities of its Border Guards and Customs Department to exercise effective control of the country's borders. The program's focus, which was initially on Georgia's maritime Border Guard forces, shifted to the Georgian-Russian land border in the Chechnya region during winter 1999-2000. Under the BSLE Program, the Georgian Border Guards were provided with barracks in the city of Poti; a radar security system at the Supsa oil terminal, which opened in April 1999; vehicles; rebuilt ship engines; an Mi-8 helicopter to enhance patrol capability; and dredging assistance in the Port of Poti for Coast Guard docking, as well as uniforms and boots. In addition, the BSLE Program provided the Georgian Customs Department with vehicles, uniforms and basic law enforcement equipment. The Border Guards and Customs Department also received joint training in interdicting weapons of mass destruction, contraband enforcement and firearms identification. The U.S. Army Corps of Engineers completed site surveys in 1999 for a combined training center for the Border Guards and Customs Service, infrastructure for aviation support, barracks at the "Red Bridge" border crossing with Azerbaijan, and coastal zone management support for the security system at the Supsa oil terminal.

Export Control and Counter-Proliferation Programs: In FY 1999, Georgian officials hosted a Caucasus and Central Asia Regional Export Control and Nonproliferation Forum in Tbilisi. Georgian officials also participated in U.S. Commerce Department licensing exchanges and enforcement training, as well as training cosponsored by the U.S. Defense Department and Federal Bureau of Investigation (FBI) at the International Law Enforcement Academy (ILEA) in Budapest, Hungary.

International Science and Technology Center (ISTC): Georgia is an active member of the multilateral International Science and Technology Center (ISTC) in Moscow, and a number of former Soviet weapons scientists in Georgia are working on ISTC-supported peaceful civilian research projects funded with U.S. Government contributions. Projects have been funded with scientists at the Georgian Technical University, the Institute of Cybernetics, the Institute of Stable Isotopes, the Republican Center of Environmental Monitoring, the State Institute of Economic Relations and Tbilisi State University.

Regional Stability Programs

Foreign Military Financing (FMF) / International Military Education and Training (IMET): In FY 1999, Georgia received \$2.45 million in security assistance under the FMF Program, which was used to purchase badly needed radios and other communication equipment that will increase the capability of Georgia's military forces to participate in NATO Partnership for Peace (PFP) exercises. Georgia also received an additional \$5.5 million in FMF funding for a program designed to provide operational helicopter capability. This program will provide Georgia with 10 UH-1H helicopters (six operational, four for spare parts), the requisite logistics support infrastructure, and training for Georgian air force pilots and mechanics. The initial cadre of pilots and mechanics received English-language training in the United States in summer 1999, to be followed by specialty training. Current plans call for the Georgians to field an operational UH-1H unit by April 2001. Georgia also received IMET assistance to send Georgian officers to ranger and infantry training, command and general staff courses, English language training, and courses in civil-military relations.

NATO Partnership for Peace Activities: Since FY 1998, the U.S. Embassy has organized three NATO tours for a total of 23 Georgian journalists and government officials, and has sent several journalists to NATO for special programs. In FY 1999, USIA sponsored a joint U.S.-NATO/NATO Information Program (NATIP) tour that brought 11 Georgian officials to NATO headquarters in Brussels, the International War Crimes Tribunal in The Hague, and Athens. The tour received significant press coverage and stimulated the Georgian Government's interest and activity in NATO-related areas. After participating in the program, the Chief of Staff of the Parliamentary Committee on Security and Defense established the Atlantic Council of Georgia (ACG), an NGO whose objectives include supporting NATO PFP programs, promoting solidarity

among PFP partner nations, and developing permanent relations and cooperation with NATO member countries. The ACG helped organize a NATO 50th anniversary event at the Georgian Parliament in April and a September conference on Georgia's cooperation with NATO that was jointly funded by NATIP and a \$6,100 Democracy Commission grant. The U.S. Embassy also funded a small Internet-equipped library devoted to security doctrine and Western political thought at the National Parliamentary Library of Georgia.

Energy and Environmental Programs

USAID Energy-Sector Programs: In FY 1999, USAID contributed to several important milestones in the restructuring of Georgia's energy sector. Significant legal and policy reforms were implemented, paving the way for the privatization of Georgia's state-owned energy enterprises. In association with a World Bank program for energy credits, USAID provided technical assistance for the privatization of the Gardabani thermal power plant—Georgia's largest—as well as for several smaller privatization transactions involving hydroelectric generation stations and numerous local distribution companies that supply electrical power to communities throughout Georgia. Negotiations were under way to finalize the privatization agreements and corresponding financial packages. In addition, USAID technical assistance and training enabled Georgia's National Energy Regulatory Commission to offset the effects of the devaluation of Georgia's national currency, the lari, in December 1998 and subsequent increases in the prices of oil and natural gas, by increasing the electricity tariff rate by more than 50 percent in June 1999. This rate increase was part of a scheduled program to make Georgia's energy sector more attractive to potential investors. USAID-funded advisors also helped facilitate the passage of legislation establishing a transparent wholesale electricity market, which became operational in July 1999, receiving and making payments for power supplied to and taken from Georgia's national electricity grid. USAID is currently working in close coordination with the World Bank and other donors to issue a management contract designed to oversee the operations of the wholesale electricity market, as well as central electricity dispatch and transmission, with the goal of removing these critical activities from potential political interference and induced market imbalances. Also with USAID support, the Georgian parliament passed a vastly improved version of the Law on Oil and Gas, which simplifies procedures for private licensing and regulation, protects existing contracts and investments, and establishes rights of eminent domain and strict environmental liability. A new state agency was established to act as a one-stop source for implementation of the new law, coordinating activities previously spread over a number of ministries. USAID is working closely with this new agency, providing training, equipment and technical assistance aimed at enabling the agency to respond better to market forces.

Social-Sector and Humanitarian Programs

USAID Winter Heat Program: During January-April 1999, USAID funded a winter heat program in Tbilisi to help vulnerable people pay their electricity bills in the wake of the privatization of Tbilisi's electrical distribution system. This program was designed to meet a real humanitarian need while simultaneously supporting the privatization process. An added benefit of this program was the creation of an accurate database of vulnerable people and the establishment of targeting criteria for poverty, which can be used in designing future social-sector programs.

USAID Humanitarian Assistance to Abkhazia: In FY 1999, the continued lack of progress in the Abkhazian peace process, as well as the overall security situation in the area, prevented regular USAID programming in Abkhazia. USAID did, however, provide assistance to the Sukhumi Maternity Hospital, a facility plagued by significant infection-control problems that were causing the deaths of newborn infants. USAID worked with two U.S. private voluntary organizations (PVOs)—the Adventist Development and Relief Agency (ADRA) and Counterpart International—to provide necessary medical equipment and supplies, especially disinfectant. The Departments of State and Defense supported this effort by furnishing and delivering Defense Department excess commodities to the region. In addition, hospital staff were trained in modern infection-control procedures.

- **Georgia Assistance Initiative (GAI):** The GAI, which is implemented by the USAID-funded "Save the Children" Federation, was designed to respond to the continuing needs of internally displaced persons (IDPs) from the Abkhazia conflict, especially those located in the western portions of Georgia. With funding that has been congressionally earmarked for victims of the Abkhazia conflict, the GAI funded activities in the areas of primary health care, shelter and community infrastructure rehabilitation, and economic opportunity.
- **USAID Self-Sufficiency Program:** USAID joined forces with a number of other donors to support the International Rescue Committee's (IRC) program to enhance the self-sufficiency of those affected by the conflict in Abkhazia. The program consists of an integrated set of activities, identifying skills needed by local employers and providing training in

those skills, as well as job placement assistance. In addition, two business incubators provided services to help existing small businesses expand. The program also includes a small loan fund component.

- **IDP Shelter Renovation Program:** With the help of a grant from USAID, the Office of the United Nations High Commissioner for Refugees (UNHCR) completed emergency shelter renovation work in early FY 1999 for IDPs displaced from Gali due to the outbreak of fighting in May 1998. In particular, the program focused on the renovation of schools that had been used by IDPs awaiting more suitable shelter, so as to allow schoolchildren to return to their classes.

U.S. Department of Agriculture (USDA) – Food Aid: In FY 1999, USDA allocated \$14.79 million for the provision of over 55,000 metric tons (MT) of food commodities to Georgia and provided a \$5.0 million concessional food aid loan to Georgia. Under its Section 416(b) Program, USDA provided 36,000 MT of wheat to the Georgian Government in FY 1999. In addition, USDA donated a total of 46,883 MT of wheat and wheat flour under the Section 416(b) Program and 8,513 MT in food commodities under the Food for Progress Program for distribution through U.S. private voluntary organizations (PVOs) in Georgia, as well as the United Nations World Food Program (WFP). The Section 416(b) deliveries were divided among International Orthodox Christian Charities (IOCC), the United Methodist Committee on Relief (UMCOR) and the WFP. IOCC distributed 1,383 MT of flour to beneficiaries in southern and western Georgia, UMCOR monetized 8,000 MT of wheat to support its medical and credit programs in eastern Georgia, and the remaining 1,500 MT of Section 416(b) wheat flour was used by the WFP. Food for Progress deliveries were divided among IOCC, UMCOR and the International Rescue Committee (IRC). IOCC received 306 MT of kidney beans, 462 MT of rice and 2,550 MT of vegetable oil, UMCOR used 1,195 MT of oil to support its above-mentioned programs, and IRC monetized 4,000 MT of soybeans to fund an agricultural micro-credit initiative. In addition, Georgia received \$10.00 million in export credit guarantees under USDA’s GSM-102 Program.

USAID Support for the United Nations World Food Program (WFP): With USAID support, WFP provided supplemental rations to 95,000 IDPs in eastern and western Georgia. Approximately 3,000 metric tons of the wheat flour distributed under this program was provided by the Georgian Government as a final in-kind repayment for USAID wheat that the Georgian Government had diverted from its intended recipients in 1994. In addition, WFP food-for-work projects benefited approximately 100,000 members of vulnerable households.

Coordinator’s Office Humanitarian Assistance: Since 1992, the U.S. State Department’s Operation Provide Hope has provided almost \$309 million in humanitarian assistance to Georgia. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$3.10 million in transportation and grant funds to deliver \$39.08 million in targeted humanitarian assistance to the people of Georgia. This humanitarian assistance, which consisted of donated high-value pharmaceuticals and other donated and U.S. Defense Department excess property (such as medical equipment, clothing, tents, heaters, etc.), was provided primarily through the following U.S. PVOs: Counterpart International, A Call to Serve (ACTS), International Relief and Development (IRD), CitiHope, and the World Council of Hellenes Abroad (SAE).

USAID Support for Salvation Army Feeding Programs: The economic downturn of 1998 has had a significant impact on lives of those individuals who are the most vulnerable within Georgian society—elderly pensioners living by themselves. In FY 1999, USAID supported the Salvation Army’s establishment of a network of feeding kitchens, which provided warm meals to 4,000 Georgian pensioners on a daily basis.

USAID Support for Youth Houses: With USAID funding, the United Methodist Committee on Relief (UMCOR) continued to support youth houses in Sukhumi (Abkhazia) and Tbilisi that aim to provide a safe environment for youth, including access to extra-curricular and academic activities and psychological counseling for post-war trauma victims. The Sukhumi Youth House was the first USAID assistance program in the war-torn region of Abkhazia. Additional funding enabled UMCOR to support the opening of a third youth house in Zugdidi, which is located in the peacekeeping zone that separates Abkhazian and Georgian forces.

Conflict Resolution Camp for Georgian and Abkhazian Youth: Following up on a highly successful conflict resolution camp held in summer 1998, the USAID-funded Academy for Educational Development (AED) sponsored two week-long summer camps—one for 125 Abkhazian youth and one for 125 Georgian youth—with an emphasis on non-violent conflict resolution. Out of these 250 participants, 50 children (25 from Abkhazia and 25 from elsewhere in Georgia) were selected to attend a month-long, U.S.-based summer camp, which enabled the participants to acquire skills in conflict resolution and helped establish contacts between ethnic Georgian IDP youth from Abkhazia and ethnic Abkhazian youth.

USAID Health-Care Partnerships: In FY 1999, USAID expanded its existing hospital partnership program into a broader program of health-care partnerships in Georgia. Two new partnerships were formed outside Tbilisi: one in Kutaisi, the capital of the Imereti Region, focusing on primary health care, and another in the Mtskheta-Mtianeti Region, targeting women's health. Two additional partnerships were also established in Tbilisi. A partnership with Georgia's Centers for Disease Control will emphasize training and the implementation of new infection-control policies and standards. A partnership with the National Health Management Center (NHMC) will educate health system managers and administrators in institutional development and health-care capacity-building. USAID also identified opportunities for supporting reform within the Georgian Ministry of Health, providing health management training to regional health officials and supporting the establishment of a modern blood bank in Tbilisi.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded \$970,000 in grants to Georgian NGOs working in the areas of civil society-building, private enterprise development and public administration and policy. In October 1998, the Eurasia Foundation initiated a South Caucasus Synergy Program designed to facilitate greater contact and cooperation among leading NGOs in Armenia, Azerbaijan and Georgia through support for cross-border projects in such areas as business development, legal reform, civil society-building, and public administration. (Please see Eurasia Foundation section in Part III of this report.)

Preview of FY 2000 Programs

In December 1999, the U.S. Ambassador to Georgia presented President Shevardnadze with a list of priority reforms that would be supported by U.S. Government-funded assistance in 2000. The list highlighted four areas: the creation of a Georgian Government agency to combat corruption, the enhancement of tax and customs revenue collection, reform of the civil service, and control and audit of budget expenditures. In FY 2000, the U.S. Government will continue to focus attention on anti-corruption efforts in Georgia. The U.S. Department of Justice (DOJ) sponsored a week-long assessment of Georgia's Chamber of Control (the equivalent of the U.S. General Accounting Office or GAO) in November 1999, which involved representatives from USAID, GAO, and the U.S. Department of the Treasury. In FY 2000, the U.S. Government will help to strengthen, reform and improve the Chamber of Control. DOJ will support the reform of Georgia's procuracy by helping to initiate qualification testing for prosecutors, and will continue to help its Georgian counterparts in their efforts to combat corruption. The U.S. Government will encourage the creation of a governmental anti-corruption agency by providing legislative drafting assistance and public education efforts to generate political support for the concept. In addition, USAID is in the process of designing a major local governmental reform program.

Among the programs to be organized by the U.S. Embassy's Public Affairs Office in FY 2000 will be a program to foster Internet connectivity between Georgia and Abkhazia. In addition, the State Department's Bureau of Educational and Cultural Affairs (formerly USIA) will implement a program to help develop a Western-style school of journalism in Tbilisi that will offer a one-year master's degree certificate.

In FY 2000, under the Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will continue to support the Georgia Border Security and Law Enforcement Program, including additional equipment and training programs, possibly additional helicopter support and additional assistance for a communication system along Georgia's northern border. The U.S. Government has allocated an excess U.S. Coast Guard 82-foot patrol boat to the Georgian Coast Guard. The BSLE Program will provide approximately \$250,000 to cover the costs associated with the transfer of the vessel, which is scheduled for late June 2000. In addition, scientific collaboration programs will continue to help prevent proliferation of weapons expertise and redirect former Soviet weapons experts to peaceful pursuits. In FY 2000, the U.S. Government has also offered to provide military relocation assistance to facilitate the removal of Russian forces from Georgia.

KAZAKHSTAN

Political and Economic Overview

Although political reform was problematic in Kazakhstan during FY 1999, important economic reforms were implemented. According to the Organization for Security and Cooperation in Europe (OSCE), the country's January 1999 presidential elections fell "far short" of its OSCE commitments. The OSCE judged Kazakhstan's October parliamentary elections to be

an improvement over the presidential elections and a "tentative" step forward towards international democratic norms, but determined that they nevertheless fell short of Kazakhstan's OSCE commitments. Kazakhstan's economic performance in the first part of 1999 was sluggish, reflecting the continuing difficulties caused by the 1998 financial crises in Russia and Asia. However, after the Government of Kazakhstan abandoned its fixed foreign-exchange rate for the national currency (the tenge) in April, Kazakhstani goods became more competitive on the world market. World prices for energy and raw minerals increased, and Russian demand for Kazakhstani products picked up. Kazakhstan enjoyed a record wheat harvest in 1999. As a result of these positive developments, the country's expected 1999 GDP growth rate balanced out to a 0.6-percent increase. The International Monetary Fund's (IMF) program for Kazakhstan had been suspended in December 1998, after government expenditures significantly exceeded spending targets in the run-up to the presidential election. To address declining revenues, the government trimmed budget spending, the budget deficit, and wage and pension arrears. As a result of these actions, the IMF approved a \$453 million Extended Fund Facility for Kazakhstan in mid-December 1999.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$78.43 million in assistance to Kazakhstan, including \$47.82 million in FREEDOM Support Act funds, \$16.64 million in other U.S. Government funds, and \$13.97 million in U.S. Defense Department excess and privately donated humanitarian commodities. USAID development assistance, which accounted for approximately \$33.8 million, focused on economic restructuring, democracy and governance, social transition, and energy and environment. In particular, USAID assistance sought to improve the regulatory environment and technical infrastructure required for a competitive securities market, a healthier banking sector and a reformed pension system, as well as promoting health-care and local government reform. In the health sector, USAID concentrated its efforts on combating tuberculosis and improving health finance and policy. U.S. Government-funded democracy programs sought to strengthen independent media and civil society in Kazakhstan. Programs focusing more broadly on the entire Central Asian region sought to improve regional cooperation in solving environmental and energy-related issues such as multilateral water resource management. In addition to encouraging energy-sector restructuring and promoting the adoption of market-based tariff structures, USAID also supported the Kazakhstani Government's efforts to join Annex One of the Kyoto Protocol and participate in global climate change mitigation activities. The U.S. Government's Regional Initiative in Atyrau was operational through its local representational office, and was already having an impact in the areas of health care, business development and local government.

Trade and Investment Programs

Support for WTO Accession, Commercial Law Reform: In FY 1999, U.S. Government-funded trade and investment programs promoted market reform and commercial law reform in Kazakhstan by supporting the country's efforts to accede the World Trade Organization (WTO). USAID-funded advisors promoted the adoption of sound fiscal policies and management practices, the accelerated development and growth of private enterprise, and the development of a more competitive and market-responsive private financial sector. Progress towards meeting these objectives was satisfactory in FY 1999. Substantial progress was made in establishing a legal framework for Kazakhstan's WTO accession, although it remains to be seen whether Kazakhstan will be willing to join the WTO ahead of Russia. In addition to passing all of the legislation needed to accede to the WTO, the Kazakhstani Government made a commitment to submit all of the remaining documents required for WTO accession, including a customs code, a law on subsidies and countervailing duties, and an anti-dumping law. USAID-funded advisors also continued to help Kazakhstani policymakers draft rules and regulations for licensing. USAID, in cooperation with the U.S. Commercial Service, achieved limited success in loosening the regulations for a new and restrictive work-permit regime for foreign workers in Kazakhstan.

USAID Business and Economic Development Programs

Progress towards meeting the U.S. Government's business and economic development objectives for Kazakhstan was generally satisfactory in FY 1999, with a few areas exceeding expectations. For example, the economic reform and business development activities being implemented under the U.S. Government's Regional Initiative in the important Atyrau Region were achieving a significant impact in areas such as enterprise accounting, municipal finance and promotion of private enterprise. Significant progress also continued to be made in banking reform, as Kazakhstani banks adopted international norms. In the area of fiscal policy, progress was made in tax administration and in the adoption of program budgeting.

USAID Pension-Reform Programs: In January 1999, Kazakhstan's private pension system, which was developed with substantial assistance from USAID, celebrated its first anniversary. The new system has operated without any structural breakdowns, providing returns and participation at a level higher during its first year than in Latin American countries that

have implemented similar reforms. In 1999, USAID worked with the Ministry of Finance to establish an Actuarial Department and helped it produce its first annual actuarial report, which was a prerequisite for the World Bank's release of a \$100 million loan to pay off all arrears in the so-called "solidarity" system. USAID-funded advisors provided draft plans to unify the three regulatory bodies and options for privatizing the State Accumulation System. In addition, USAID designed and implemented a public relations/education initiative that included three-day conferences, workshops and seminars in 10 cities and provinces. USAID also provided extensive legal and regulatory information to the National Bank, Ministry of Labor and Social Protection, National Securities Commission, the Committee to Regulate the Activities of Accumulation Pension Funds, and the State Center for Benefit Payments. Over half of all pension contributions are now flowing into private funds. To offer investment diversification options to the pension funds, USAID began providing corporate-finance and investment-banking advice to the market participants, to introduce additional financial instruments such as investment-quality stocks, depository receipts, and corporate and mortgage-backed bonds.

USAID Accounting-Reform Programs: Kazakhstan continued to lead the NIS countries in accounting reform in FY 1999. USAID-funded advisors helped the Government of Kazakhstan adopt an auditing law that gives standard-setting, auditor-qualification and -certification authority to a self-regulatory organization. In addition, the advisors helped the Kazakhstani Government introduce a modern accounting curriculum in the country's universities.

USAID Support for Micro-Enterprise Development: In FY 1999, the U.S. Government continued to support micro-enterprise development in Kazakhstan. Using loan funds from the Central Asian - American Enterprise Fund (CAAEF), Mercy Corps International (MCI) operated a micro-credit program in Almaty, issuing loans ranging from \$1,000 to \$25,000. The CAAEF also continued to expand its lending activities in Kazakhstan to small and medium-sized enterprises. The micro-credit program of the Kazakhstan Community Loan Fund (KCLF) in Taldy Korgan, which was established with USAID support, became financially sustainable in FY 1999. KCLF makes loans averaging less than \$300 to a low-income, predominantly female clientele.

Training, Exchange and Educational Reform Programs

Since FY 1993, U.S. Government-funded exchange programs have brought over 2,700 citizens of Kazakhstan to the United States for short-term professional or long-term academic training, including over 500 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training: In FY 1999, USAID short-term training programs continued to provide important support to reform-minded mid- to senior-level Kazakhstani leaders and professionals in areas directly relevant to political and economic reform. In FY 1999, USAID trained over 600 Kazakhstanis (including over 270 women): 80 of them in U.S.-based programs, over 70 in third-country programs and 460 in in-country programs. Of this total, over 450 participants received training in the area of economic restructuring, over 75 in democratic reform, and over 50 in social stabilization. USAID has started placing a greater emphasis on more cost-effective in-country training programs and on training trainers rather than simply training individual participants. For example, university professors from throughout Kazakhstan participated in a USAID-sponsored five-week course on the country's newly introduced accounting curriculum. These professors are now using their new skills to teach international accounting in their home institutions. In addition, USAID provided support to faculty members of the accounting department at the Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP), the country's premier business school. After receiving USAID training, a working group of environmental organizations has been operating for two years in the area of global climate change. A continuing series of USAID-supported judicial conferences resulted in the formation of an independent association of judges, and a training program on women in politics prepared several female candidates to run for office in municipal and parliamentary elections and to participate in televised political debates. In addition, in October 1999, nine senior-level government officials and representatives of non-governmental organizations (NGOs) participated in USAID's Lessons in Transition conference in Warsaw, which gave them an opportunity to share their professional experiences with leaders from other NIS countries.

U.S. Information Agency (USIA) Exchanges: In FY 1999, USIA exchange programs continued to support democratic institution-building and the transition to a free-market economy in Kazakhstan. These programs focused on independent media, educational and legal reform, NGO leadership development, grassroots participation in the political process, leadership training for women, Internet access and distance learning, small business and entrepreneurial development, public administration, English language teaching and American studies. Over 380 Kazakhstanis traveled to the United States in FY 1999 on USIA exchange programs, roughly half on them on academic exchanges and half of them on professional exchanges. Approximately 100 Kazakhstani graduate, undergraduate and high school students participated in long-term exchange programs, and approximately 25 university professors gained experience in research, teaching and curriculum de-

velopment in the United States under the Fulbright, Regional Scholars Exchange, and Junior Faculty Development Programs. In addition, over 100 Kazakhstani professionals participated in U.S.-based internships and training programs in fields such as business, public administration, media, and women's leadership, and 80 senior-level professionals traveled to the United States under USIA's International Visitors (IV) Program to explore issues related to democratic and economic reform.

USIA University Partnerships: In FY 1999, USIA's NIS College/University Partnership Program continued to promote self-sustainable, long-term relationships between Kazakhstani and U.S. universities, thus encouraging a viable exchange of information and scholars on a range of important issues, including public administration and finance. USIA launched two new university partnerships supporting curriculum and institutional development. Indiana University at Bloomington began a cooperative program to strengthen the law curriculum at Adilet Higher Law School, and in support of the U.S. Government's Regional Initiative in Atyrau, San Diego State University launched a program in management for energy-related fields in cooperation with Atyrau's Oil and Gas Institute.

USIA Internet Access and Training Program (IATP): In FY 1999, IATP continued to support a public-access Internet site in Almaty that provides direct Internet access for a variety of users, especially Kazakhstani alumni of U.S. Government-funded exchange programs, thereby helping them maintain and develop their contacts and broaden their professional horizons upon returning home. IATP also made distance learning available to people who would not otherwise have had the opportunity to access higher education in the United States.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, USDA's Cochran Program continued to support agricultural reform in Kazakhstan, organizing short-term exchange programs for a total of 17 Kazakhstani agriculturists.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships for 15 Kazakhstani participants. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

Democracy Programs

Democracy Fund Small Grants Program: In FY 1999, the U.S. Embassy's Democracy Commission continued to serve as a flexible, rapid-response mechanism for supporting democratic institution-building at the grassroots level, awarding 10 grants totaling approximately \$80,000 to local NGOs working in such areas as business development, legal and social issues, media, and women's issues.

USAID Election-Related Assistance: In the wake of Kazakhstan's flawed January 1999 presidential elections, USAID proceeded cautiously in the area of election-related assistance, providing only voter education and domestic observer training for the October 1999 parliamentary elections. As a result of U.S. and international urging, Kazakhstan's new election law included some positive changes. The Government of Kazakhstan removed participation in an unsanctioned public gathering from the list of administrative offenses that could disqualify candidates from running—an offense that had eliminated virtually the entire opposition from the presidential elections. In addition, the government lowered registration fees for candidates and removed the requirement of 50-percent voter turnout for elections to be considered valid. Despite these improvements, however, the parliamentary elections were significantly flawed.

USAID Citizen Participation Programs: In FY 1999, USAID's citizen participation programs in Kazakhstan were focused on creating an environment that fosters NGO development, rule of law, freedom of information and citizen participation. Technical assistance in this area was focused on public policy advocacy and "social partnerships" that create links between NGOs, government, mass media and private businesses. USAID provided grants to Kazakhstani NGOs to implement projects in each of these areas. USAID also sought to help create a legal framework conducive to NGO development. USAID-sponsored information and resource centers disseminated information about NGO legislation, and served as a focal point for the local NGO community to share ideas and receive training. Partnership programs helped local NGOs exchange ideas with colleagues in other countries. As a result of these efforts, Kazakhstani citizen groups increasingly voiced their views on critical social issues such as payment arrears and land privatization. In addition, USAID helped increase citizen participation in the legislative process, helping NGOs provide input in the process of drafting a law on land, an NGO law, a mass media law, a law on disabilities, an election law, and an agrarian code. However, Kazakhstani NGOs continued to have trouble overcoming the challenge of constituency-building, which continued to impede their ability to have a greater impact on government reforms.

USAID / USIA Independent Media Programs: In comparison with other areas, USAID's programs to promote independent media made relatively less progress in FY 1999. Government pressure and self-censorship continued to hamper the quality and content of news. During the periods prior to the presidential and parliamentary elections, Kazakhstan's independent television stations reported that state security officials instructed them not to broadcast information on opposition candidates. To promote the establishment of an enabling legal environment that respects freedom of the press, USAID and USIA supported the efforts of independent media outlets to comment on the recently adopted law on mass media.

USAID Legislative Drafting and Judicial Training Programs: In FY 1999, USAID continued to provide legislative drafting and judicial training assistance to Kazakhstan, helping the Government of Kazakhstan establish a legislative drafting center.

Law Enforcement / Counter-Narcotics Programs: In FY 1999, the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) trained some 100 Kazakhstani officials from the Ministry of Internal Affairs, the procuracy, the courts, the Presidential Administration, the Customs Committee, the Border Guards, the Ministry of Justice, the Tax Police and the Committee for National Security. The main objective of these training programs was to help Kazakhstani officials combat the growing regional threat of narcotics trafficking and the associated problems of organized crime, corruption, money laundering and drug abuse. INL training programs also promoted the rule of law and cooperation among law enforcement agencies. In addition to conducting training in Kazakhstan, INL also sponsored the participation of Kazakhstani officials in regional conferences. Training topics included money laundering, case management, and various areas of forensic analysis, and training was accompanied by equipment donations. Kazakhstani officials also participated in a sister-city exchange program on domestic violence, and a needs assessment program at the International Law Enforcement Academy in Budapest. In addition, 60 teachers from throughout Kazakhstan were trained in the implementation of a drug-abuse prevention curriculum in cooperation with the United Kingdom and the United Nations Drug Control Program. Training planned for FY 2000 includes such topics as corruption, intellectual property crimes, anti-crime strike forces and task forces, and combating organized crime, as well as further training in counter-narcotics measures, combating money laundering, and forensic analysis.

Security Programs

As a former nuclear weapons state with nuclear reactors, and an inheritor of Soviet biological and chemical weapons infrastructure and expertise, Kazakhstan has the potential to be a source or transit country for weapons-of-mass-destruction (WMD) materials and technology and for conventional weapons transfers to countries of proliferation concern. In FY 1999, U.S. Government-funded programs helped reduce threats of proliferation; ensure the security of nuclear materials at nuclear power, research and production facilities; enhance export controls; and redirect former Soviet weapons expertise to peaceful projects. Kazakhstan has made major efforts in WMD nonproliferation, and following the discovery in 1999 of Kazakhstan's transfer of MiG-21's to North Korea, cooperative nonproliferation efforts with Kazakhstan have also been focused on conventional weapons transfers.

In FY 1999, U.S.-Kazakhstani security cooperation was focused on a number of objectives: (1) developing effective export control systems to prevent the proliferation of weapons of mass destruction or destabilizing transfers of conventional arms; (2) assisting with the establishment of professional armed forces capable of operating alongside NATO forces in peacekeeping, search and rescue or humanitarian operations; (3) enhancing the Kazakhstani Armed Forces' support for democratic and economic transition; (4) enhancing Kazakhstani counter-narcotics capabilities; and (5) strengthening Kazakhstan's relations with multilateral organizations.

U.S. Department of Defense (DoD) Defense Reform Initiatives: Initiatives in Kazakhstan in FY 1999 included a defense resource management study and exchange programs focusing on defense planning, defense resource planning, a defense logistics information, and defense-related environmental issues.

DoD Military-to-Military Contact Program: Multi-level military-to-military contacts and participation in routine bilateral and multilateral exercises served to integrate Kazakhstani military personnel into Western military operations and promote the modernization of Kazakhstani equipment and training in accordance with NATO models. Some 25 bilateral activities were completed in 1999 at a total cost of \$415,000, including the visit of the commanding general of CENTCOM to Kazakhstan in December. Another 48 contact events are scheduled for 2000. The Kazakhstani military continued to develop its peacekeeping battalion under the Central Asian Peacekeeping Battalion (CENTRASBAT). Kazakhstani military leaders participated in a command post exercise along with Uzbek and Kyrgyz military leaders at U.S. Central Command

(CENTCOM) Headquarters in spring 1999. These contacts encouraged the development of professional and apolitical armed forces capable of legitimate self-defense—thus promoting stability—and capable of contributing to international peacekeeping operations. These contacts also helped develop long-term institutional relationships between Kazakhstan and the United States, promoting substantive professional dialogue on important defense and military topics.

International Military Education and Training (IMET) Program: U.S. Government-funded International Military Education and Training (IMET) programs promoted democratic and free-market concepts in the operations of Kazakhstan's armed forces. In addition, a partnership with the Arizona National Guard enhanced disaster preparedness and actively showed how the citizen-soldier concept functions in a democratic system. Kazakhstan was allocated \$564,000 for IMET programs in FY 1999, which it mainly used to fund English language training, as well as U.S.-based military training for 14 Kazakhstanis. In FY 2000, the focus of Kazakhstan's IMET programs will change to basic non-commissioned officer (NCO) and officer courses to enable the Kazakhstanis to establish a professional military force.

Foreign Military Financing (FMF) Program: By playing an increasingly active role in NATO's Partnership for Peace (PFP) Program, Kazakhstan strengthened its ties with NATO, as well as with other PFP participants. In FY 1999, Kazakhstan was allocated \$1.8 million in FMF funds. Two active FMF transactions included 250 flight suits, of which 200 were delivered and 50 are due to arrive in March 2000. A computer-based interactive language laboratory and an English language audio laboratory were also procured using FMF funds. In addition, the Government of Kazakhstan expressed interest in FMF-funded medical equipment for a proposed military hospital in the country's new capital, Astana, and submitted a letter of request to renovate its linguistic training center for a total of \$125,000.

Excess Defense Articles (EDA): In FY 1999, the U.S. Government allocated a U.S. Coast Guard 180-foot Balsam-class buoy tender to Kazakhstan's Border Guards. The transfer of the vessel is on hold, pending the Kazakhstani Government's providing the assurances required to receive EDA. The U.S. Embassy in Almaty will continue to work with its Kazakhstani Government counterparts to facilitate the delivery of the vessel in 2000.

DoD Cooperative Threat Reduction (CTR or "Nunn-Lugar") Program: Through FY 1999, \$154 million has been obligated and over \$136 million disbursed for Kazakhstan under the CTR Program. In FY 1999, the CTR Program continued to help Kazakhstan eliminate infrastructure of the former Soviet biological weapons (BW) production facility at Stepnogorsk. CTR also completed the sealing of 180 out of the 181 nuclear test tunnels at Degelen Mountain and all of the test bore-holes at Balapan. In addition, CTR completed an assessment and preparation for elimination of liquid rocket fuel and associated infrastructure at intercontinental ballistic missile (ICBM) bases and the Chagan Aerodome. Completion of the elimination process is slated for FY 2000.

Export Control and Nonproliferation Programs: The U.S. Department of Commerce organized three regional and bilateral conferences on various aspects of export control and nonproliferation, both in Washington and in Kazakhstan in 1999. A total of fourteen Kazakhstani Government officials participated in one or more of these conferences.

Nonproliferation of Weapons Expertise: Through the State Department-supported International Science and Technology Center (ISTC) in Moscow, a number of projects were approved and funded to redirect biological weapons (BW) expertise from the Stepnogorsk facility in Kazakhstan to peaceful civilian research and development activities as part of the multi-agency Stepnogorsk Initiative. Research projects were also funded in 1999 under the U.S. Civilian Research and Development Foundation (CRDF). Six projects under the U.S. Energy Department's Initiatives for Proliferation Prevention (IPP) Program were delayed during the year over issues of taxation of assistance, which were resolved at the end of the year.

Energy and Environmental Programs

USAID Energy-Sector Programs: In FY 1999, USAID's efforts to promote energy-sector reform in Kazakhstan were focused on developing an effective policy framework for an environmentally sound, regionally efficient, and market-oriented energy sector, which will help reduce economic and political tensions generated by cross-border environmental disputes. Progress towards these objectives exceeded expectations in FY 1999, although the repeated reorganization of the Kazakhstani Government and the resulting turnover of senior officials hindered efforts to create an effective policy framework. USAID-funded advisors helped Kazakhstan's Ministry of Energy, Industry and Trade (MEIT) and the Ministry of Environment and Natural Resources (MENR) adopt new rules and regulations for the licensing and environmentally safe operation of petroleum drilling and pipeline transport facilities. In the electricity sector, the sale of the remaining ten percent of shares in Kazakhstan's electric-power generation system has been delayed until mid-2000. With USAID support, the U.S. Energy Association (USEA) initiated four partnerships with U.S. energy operators: one between the Kazakhstani Anti-

Monopoly Committee and the Illinois Commerce Commission; one between the public-sector Kazakhstan Electric Grid and Operation Company (KEGOC) and California Electricity providers; one between the private-sector Kazakhstan Electricity Association, the Edison Institute and the Pennsylvania Utilities Association; and one between MEIT, MENR and the Alabama Oil and Gas Board.

USAID Environmental Programs: In FY 1999, USAID's efforts in the environmental sector achieved significant results in Kazakhstan. In the area of global climate change, USAID supported an analysis that enabled the Government of Kazakhstan to sign Annex One of the Kyoto Protocol. USAID-funded experts trained government officials from MEIT, MENR and the Ministry of the Economy in emissions monitoring and forecasting and the use of macroeconomic models related to energy use. In the area of local water management, USAID, World Bank and Asian Development Bank specialists helped draft legislation to create a legal framework for the functioning of water user associations, which was subsequently presented to the government. A pilot water user-group project was initiated in a farming community near Almaty. In the area of regional water management, Kazakhstani Government officials participated fully in USAID-supported efforts to improve trans-boundary management of shared water systems. With USAID assistance, the Kazakhstani Government developed a water-use optimization model for the Syr Darya Basin, adopted a uniform system to calculate operation and maintenance costs for shared basin facilities, and fully implemented the 1998 Water and Energy Exchange Agreement. Kazakhstani officials also participated in the Energy- and Water-Use Roundtable, which met regularly to resolve regional water and energy resource management issues.

Social Sector and Humanitarian Programs

USAID Health-Care Reform Programs: In FY 1999, USAID's health-care reform efforts sought to increase the efficiency and effectiveness of Kazakhstan's health-care system and develop private-sector health-care capacity by introducing cost-effective reform models, helping to build a policy consensus and legal framework for health-care reform, providing technical assistance to develop and implement specific interventions, providing training and informing the public about the impact of the reforms. Increased involvement of physicians and consumers was already evident in USAID's two demonstration sites in Kazakhstan. Newly trained family physicians organized non-governmental professional associations to resolve problems jointly and to influence government policy decisions. A public information and marketing campaign sponsored by USAID resulted in more than 75 percent of the population of Zhezkazgan enrolling in a family group practice. A consumer health telephone hotline was expanded to 10 cities in Kazakhstan, providing free information to callers on topics such as reproductive health and women's health. Abortion as a method of birth control continued to decline in FY 1999, as other methods of birth control became more widely known. In response to a pro-population-growth movement initiated by the Kazakhstani Government, USAID sought to increase national and oblast (regional) officials' understanding of the impact and long-term consequences of the policies they were advocating, by training them to use a computer-based program called Spectrum, which allows policymakers to project population trends and the impact they will have on government expenditures. The Spectrum software was well received by senior-level government officials. In addition, two new USAID-funded health partnerships were initiated in Kazakhstan in FY 1999: one between the Almaty School of Public Health and Virginia Commonwealth University and one between the Pittsburgh Mercy Health System and a yet-to-be-determined family group practice site in Astana.

U.S. Department of Agriculture (USDA) – Food Aid Programs: In FY 1999, USDA allocated \$6.88 million for the provision of approximately 7,300 metric tons of food commodities to Kazakhstan. Under its P.L. 480, Title III Food for Progress Program, USDA provided 3,000 metric tons of U.S. soybean meal and 4,300 metric tons of U.S. corn oil valued at \$5.6 million. Winrock International and Mercy Corps International administered this commodity monetization program, whose proceeds were used to fund micro-lending to local farmers. As part of the American Red Cross's Aral Sea Region Program, Kazakhstan received over \$1.28 million in food aid under USDA's Food for Progress Program and almost \$257,000 through USDA's Section 416(b) Program in support of direct-feeding initiatives. In addition, under USDA's GSM-102 export credit guarantee program, Kazakhstan imported 10,000 metric tons of U.S. chicken legs valued at \$10 million, the sale of which was financed by a one-year credit from Citibank.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided over \$156 million in humanitarian assistance to Kazakhstan. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$ 1.17 million in transportation and grant funds to deliver \$13.97 million in targeted humanitarian assistance to the people of Kazakhstan through U.S. private voluntary organizations (PVOs). The bulk of this assistance consisted of U.S. Defense Department excess property identified by the Counterpart Humanitarian Assistance Program (CHAP) and delivered under Operation Provide Hope.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded 26 grants totaling \$960,000 in support of private enterprise development, public administration and policy, and civil society in Kazakhstan. (Please see Eurasia Foundation section in Part III of this report.)

Peace Corps: In FY 1999, Peace Corps programs in Kazakhstan concentrated on four sectors: teaching English as a foreign language, economic development, public health and environmental education. As of the end of FY 1999, 113 Peace Corps volunteers (PCVs) were serving two-year terms of service in 13 of Kazakhstan's 14 oblasts (regions), working with Kazakhstani colleagues in local organizations. Since 1993, more than 400 PCVs have served in Kazakhstan.

- **Teaching English as a Foreign Language (TEFL):** TEFL volunteers provided assistance with English-language teaching and educational resource development. The majority of TEFL volunteers were teaching secondary school students, while others taught English at the university level. In addition, TEFL volunteers conducted workshops for local teachers on using different methodologies and content-based lessons, helped write grant applications, and helped obtain access to information. In collaboration with the Soros Foundation, PCVs helped establish English teachers' associations and resource centers and trained local teachers to run NGOs. With support from PCVs, local teachers and school staff developed planning and fund-raising skills that will help their associations and NGOs to achieve self-sustainability. PCVs have provided information resources, consulting and training assistance to seven information resource centers throughout Kazakhstan, which were originally established to support learning of the English language, but have become a source of information on a variety of subjects and can serve a wider-ranging clientele. The main problems faced by TEFL volunteers continued to be resistance to change, restricted resources and a lack of local funds. However, as a result of being exposed to the PCVs' positive "can-do" attitude, local teachers and principals became more open to new ideas and made considerable changes and improvements to their curricula, libraries and teaching techniques. TEFL volunteers also demonstrated creativity and resourcefulness—skills that local community activists desperately need.
- **Economic Development Volunteers:** Knowledge of Western business practices is in great demand in Kazakhstan, and there continues to be a lack of local teachers trained in these subjects. Since 1993, economic development PCVs have been teaching Western business techniques to Kazakhstani entrepreneurs and students in secondary and post-secondary institutions. In just over six years, economic development PCVs have taught business skills to over 2,000 Kazakhstanis. Students, teachers and entrepreneurs have learned a range of Western business skills ranging from business plan creation, small-business start-up and sustainability to the more general transfer of knowledge of business-related subjects. Economic development PCVs serving in schools were teaching marketing, finance, accounting and economics, and were received by the schools with great enthusiasm, as the only development assistance group in Kazakhstan with knowledgeable individuals teaching these subjects on a long-term basis.
- **Public Health Volunteers:** Public health PCVs focused on maternal, child and youth health, including HIV/AIDS awareness, sex education, and the transition from curative medicine to preventive health care. PCVs helped develop family practice concepts, as well as the organizational and management skills of nascent health NGOs and family practice clinics. In addition to working in AIDS centers, clinics and local NGOs, PCVs also implemented independent secondary projects such as teaching health classes in schools, organizing community events for occasions such as World AIDS Awareness Day and health fairs.
- **Environmental Education Volunteers:** Environmental education PCVs worked in Kazakhstani secondary schools, universities and NGOs, helping local teachers develop environmental curricula, with an emphasis on training teachers in how to take into account the "learning cycle" when planning lessons. The PCVs also helped establish and manage environmental NGOs, providing training and start-up assistance to NGO members, including assistance with project planning and management. With resources provided by the PCVs, these NGOs were able to increase their contacts with other Kazakhstani and international environmental NGOs, giving them access to updated environmental data, techniques and information; additional staff training; and project funding. PCVs conducted a variety of environmental projects in their host communities, such as summer ecological camps, Earth Day events, cleaning riverbanks and other environmental awareness projects. PCVs also helped implement the U.S. Government-supported GLOBE environmental education program by training teachers to use the GLOBE Program.

Preview of FY 2000 Programs

In FY 2000, the U.S. Government will continue to provide assistance to Kazakhstan in the areas of economic and financial reform, environmental management, health sector reform, local government and civil society building. USAID plans to place an increasing emphasis on activities that have the greatest impact on the population. In the area of economic and financial reform, USAID will broaden and deepen its support for economic education programs and will seek opportunities to develop private enterprises. A number of activities, including capital markets development, and commercial law drafting and training support programs have been quite successful and are expected to close out. In the area of energy and environment, USAID will consider a public education program to raise the consciousness of government officials and citizens on the necessity of market-oriented pricing, energy regulations and energy conservation and efficiency awareness. USAID will also seek to promote improved water usage and reduced environmental effects of Caspian oil development. In the area of democracy-building, USAID plans to reduce election-related assistance, expand its independent media support to include new approaches to information dissemination, and localize and specialize its civil society activities. USAID's local government program will continue to build the institutional capacity and increase the autonomy of local government institutions. Efforts to incorporate infectious disease control and reproductive health efforts into an integrated family group practice (FGP) model will continue, and USAID will work closely with the World Bank as it replicates USAID's FGP model to additional oblasts (regions) throughout the country. Rational pharmaceutical management will be integrated into USAID's existing health portfolio along with the establishment of two new health partnerships. Training and exchanges will continue to support USAID technical assistance in all sectors.

Under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will increase assistance to prevent the proliferation of weapons of mass destruction (WMD), weapons technology and expertise in Kazakhstan in FY 2000. Expanded scientific collaboration programs will help prevent the proliferation of weapons expertise and redirect former Soviet biological weapons (BW) experts in Kazakhstan to peaceful pursuits, with a particular emphasis on scientists from the Stepnogorsk facility. Emphasis will also be placed on enhancing Kazakhstan's export controls and border security by providing additional equipment and training.

KYRGYZSTAN

Political and economic reform continued in Kyrgyzstan in FY 1999, although for the most part, the easy gains of reform had already been achieved. An armed insurgency in southern Kyrgyzstan, continuing economic decline, an overwhelming foreign debt burden and preparations for parliamentary and presidential elections in 2000 placed difficult challenges before the Kyrgyz Government and people.

Political Overview

On the political front, the most significant event of the year was Kyrgyzstan's successful expulsion of armed insurgents who entered the southern region of the country near Batken in late August. The insurgents captured 13 Kyrgyz and four Japanese hostages. With assistance from neighboring states, the Kyrgyz Armed Forces managed to push the insurgents out of the country with minimal use of force and relatively low loss of life, and all of the hostages were released unharmed. Although the Kyrgyz Government succeeded in pushing out the insurgents, Kyrgyzstan's porous southern border with Tajikistan makes their re-infiltration a strong likelihood in spring 2000, when the mountain passes will once again be passable. Elections held on October 17, 1999, for newly created local government councils marked the first use of the 1999 revised electoral code. Also for the first time, independent non-governmental organization (NGO) observers were deployed at polling sites, and they reported some irregularities with the conduct of the elections. In late 1999, preparations for the parliamentary elections scheduled for February 20, 2000, were well under way.

In FY 1999, the Kyrgyz parliament continued to be one of the most active and independent in the NIS, regularly overriding presidential vetoes and passing legislation that the executive branch did not favor. The press in Kyrgyzstan also remained among the freest in the NIS, although in 1998 the parliament vetoed by a large margin a draft bill introduced by President Akayev which would have removed libel from the criminal code and placed it under the civil code. Nevertheless, there were no journalists in prison for libel in FY 1999. Religious tolerance was widely practiced, although some religious groups occasionally experienced bureaucratic difficulties in trying to register. The courts began operating on a budget independent of the executive branch, and an independent bar association was established to regulate lawyers' standards. Nonetheless, the judicial branch remained Kyrgyzstan's weakest branch of government.

Economic Overview

On the economic front, Kyrgyzstan is a landlocked country with limited natural resources and limited industrial production. To complicate matters, those segments of the population who are not directly benefiting from Kyrgyzstan's economic reforms remain a potent political force. Since half of Kyrgyzstan's foreign trade continued to be with Russia in FY 1999, its economy—like that of other NIS countries—was severely affected by the Russian economic crisis, although Kyrgyzstan's fully convertible currency and fully independent economic policy did mitigate some of the effects of the crisis. Nevertheless, the gradual decline of inflation that Kyrgyzstan had enjoyed throughout FY 1997 reversed itself, annualized interest rates on government bonds approached 80 percent, and commercial lending rates were far too high to encourage growth in the private banking system as a stimulus to the economy. Kyrgyzstan's national currency, the som, weakened considerably, from an average of 27 to the dollar in 1998 to 46 by the end of 1999. Unemployment rates remained stubbornly high throughout the country, particularly in the Osh Region of southern Kyrgyzstan. While growth in 1997 was a healthy seven to eight percent for the first half of the year, it slowed significantly in 1998, and the downward trend continued in 1999. Gold revenues, which contributed significantly to Kyrgyzstan's overall growth in 1997, remained weak throughout 1998 and 1999.

Although about 60 percent of Kyrgyzstan's economy was in private hands by 1997, there has been virtually no further privatization since that time. The political will to forge the compromises necessary to advance privatization in key "crown jewel" sectors such as telecommunications, energy and mining was lacking. One positive development was the growth of Kyrgyzstan's stock market, which was established with USAID support and registered more trades on average than any other stock market in the region. Having become the first NIS country to join the World Trade Organization (WTO) in December 1998, Kyrgyzstan worked on meeting its post-accession requirements and commitments during FY 1999, receiving targeted U.S. Government assistance in this area.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$81.44 million in assistance to Kyrgyzstan, including \$31.98 million in FREEDOM Support Act funds, \$24.83 million in U.S. Department of Agriculture (USDA) funds, \$5.10 million in other U.S. Government funds, and \$19.53 million in U.S. Defense Department excess and privately donated humanitarian commodities. U.S. Government-funded assistance programs focused mainly on economic reform, democratic reform, social transition, and regional energy and environmental initiatives. The U.S. Government also provided security assistance to Kyrgyzstan. As was the case in FY 1998, although the Kyrgyz Government was generally very receptive to U.S. Government-funded assistance programs, it did not always follow through with full institutional support.

Trade and Investment Programs

With USAID funding, Booz-Allen helped the Kyrgyz Government implement its WTO agreements and obligations. Programs begun in FY 1999 focused on helping Kyrgyzstan's business community develop and expand trade and investment by eliminating or mitigating barriers to trade, such as customs and licensing requirements. Also in FY 1999, an investment dispute that had previously hampered the Overseas Private Investment Corporation's (OPIC) activities in Kyrgyzstan was resolved satisfactorily. As a result of the Kyrgyz Government's reasonable and necessary decision to offer no new sovereign guarantees for private-sector or para-statal business projects, the U.S. Export-Import Bank's activities in Kyrgyzstan also remained limited. The Central Asian - American Enterprise Fund (CAAEF) continued to experience significant difficulties in FY 1999 with its three major equity investments in Kyrgyzstan.

Business and Economic Development Programs

USAID Accounting and Fiscal Reform Programs: In FY 1999, Kyrgyzstan once again continued to be an NIS leader in the adoption of international accounting standards (IAS) for banks and enterprises. With USAID assistance, the Ministry of Finance established a complete regulatory and technical basis for the conversion to IAS. The National Bank of Kyrgyzstan also adopted IAS and a chart of accounts for commercial banks. USAID will continue to provide the National Bank and commercial banks with support in the area of bank supervision. Even though a new tax code and the introduction of program budgeting provided the Kyrgyz Government with accurate indicators of revenue and expenditures, budget and tax reforms were not implemented at the oblast (regional) level and the Kyrgyz Government's revenues failed to increase due to the country's severe economic situation.

U.S. Department of the Treasury – Technical Advisors: In FY 1999, a Treasury Department technical advisor worked closely with Kyrgyzstan's Ministry of Finance and the National Bank, offering advice on sound public financial policy and debt management. (Please see Treasury Department section in Part III of this report.)

Micro-Lending Programs: Having issued close to \$3.1 million in loans to medium-sized enterprises, the credit program implemented by the Central Asian - American Enterprise Fund (CAAEF) and Mercy Corps International has become one of the most successful credit projects in Kyrgyzstan. Similarly, the Foundation for International Community Assistance (FINCA) continues to expand its USAID-funded micro-credit lending activities throughout Kyrgyzstan while maintaining its high 98.5-percent repayment rate.

Training and Exchange Programs

Since FY 1993, U.S. Government-funded exchange programs have brought over 1,600 Kyrgyz citizens to the United States for short-term professional or long-term academic training, including some 250 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

U.S. Information Agency (USIA) Exchanges and Partnerships: In FY 1999, 120 Kyrgyz citizens participated in USIA academic exchange programs, and over 60 participated in USIA professional exchange programs. A total of 42 Kyrgyz traveled to the United States under USIA's International Visitor (IV) Program, bringing the cumulative total of Kyrgyz IV grantees to 194. Four U.S. Fulbright Scholars came to Kyrgyzstan in FY 1999, bringing the cumulative total to 16. In addition, USIA also actively supported university partnerships, including a partnership with the Kyrgyz-American University. USIA also funded a women's leadership development program and a variety of exchange programs bringing younger generations of Kyrgyz to the United States on high school, undergraduate and graduate academic programs.

USAID Training: In FY 1999, some 400 Kyrgyz citizens participated in USAID-funded training programs: some 50 in U.S.-based programs, over 40 in third-country programs and over 300 in in-country programs. Of this total, over 240 received training in the area of economic restructuring, over 100 in democratic reform and some 20 in social stabilization. As of the end of FY 1999, over 2,600 Kyrgyz citizens had participated in USAID U.S.-based and in-country training programs. In addition to working with the Government of Kyrgyzstan to provide trainers for municipal training centers in international accounting standards (IAS), USAID also funded training on the topics of fiscal reform, accounting standards, health reform, and NGO development.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: Under USDA's Cochran Program, 13 Kyrgyz participants completed agricultural training in the United States in FY 1999.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships for four Kyrgyz participants. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

Democracy Programs

USAID Democracy Programs: In FY 1999, USAID-funded democracy programs focused on increasing citizen participation in economic and political decision-making, planning civic initiatives at the local level, and developing training for lawyers, NGO leaders and others. USAID provided assistance to Kyrgyzstan's Central Election Commission, and to civil society-building, civic participation, voter education and domestic observation efforts throughout Kyrgyzstan. USAID also provided small grants to Kyrgyz NGOs involved in voter education, "get-out-the-vote" programs, domestic monitoring activities and media coverage of elections and electoral campaigns. In FY 1999, the Government of Kyrgyzstan adopted new electoral legislation that reflects the input of NGOs and generally meets international standards. USAID was instrumental in providing expert commentary on the new election law and political party law, both of which were enacted by the Kyrgyz Government and are the most progressive electoral laws in the entire Central Asian region.

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission awarded 14 grants totaling \$100,000 in support of women's and students' organizations, independent media, civic and legal education, public debates promoting the development of civil society, and media coverage of election issues. USIA hired a Democracy Commission assistant to enhance the embassy's outreach to Kyrgyzstan's regions.

Law Enforcement Training: In FY 1999, the U.S. Government provided approximately \$151,000 in law enforcement training to Kyrgyzstan, focusing on customs, non-proliferation and narcotics interdiction.

Security Programs

Kyrgyzstan is an enthusiastic participant in NATO's Euro-Atlantic Partnership Council and the Partnership for Peace, and was an early supporter of the Central Asian Peacekeeping Battalion (CENTRASBAT) concept. The Government of Kyrgyzstan regularly attends and actively participates in regional and multilateral fora on security, including those sponsored by the United Nations, the Organization for Security and Cooperation in Europe (OSCE) and the U.S. Government. U.S. Government-funded security assistance to Kyrgyzstan has focused on regional security and peacekeeping, although the recent militant incursion in southwest Kyrgyzstan, combined with ongoing events in Southwest Asia and the Northern Caucasus, have drawn new attention to enhancing export controls and border security for Kyrgyzstan and its neighbors. In FY 1999, U.S. Government-funded counter-proliferation assistance focused on developing and enhancing the border security and export control capabilities of Kyrgyzstan and its Central Asian neighbors, with a focus on interdicting the smuggling of weapons of mass destruction.

U.S. Department of Defense (DoD): In FY 1999, Kyrgyzstan received \$1.55 million under the Foreign Military Financing (FMF) Program. The Kyrgyz Government used these funds for an emergency purchase of load-bearing equipment, night-vision goggles, and high-frequency radio base stations to support its efforts to control the country's southern borders. Under Partnership for Peace (PFP) programs jointly sponsored by NATO and the U.S. Government's Warsaw Initiative funds, Kyrgyz officials attended planning conferences, joint exercises and other events. Kyrgyzstan was allocated an estimated \$250,000 in Partnership for Peace (PFP)/Warsaw Initiative funds for NATO/PFP exercises in FY 1999. In addition, \$498,900 was allocated to Kyrgyzstan under Cooperative Threat Reduction (CTR) military-to-military contact programs managed by U.S. Central Command (CENTCOM).

DoD International Military Education and Training (IMET) Program: Since August 1994, over 50 Kyrgyz officials, both military and civilian, have attended training programs at DoD's Marshall Center in Germany. In FY 1999, Kyrgyzstan was allocated \$383,000 in training funds under the International Military Education and Training (IMET) Program, with which nine Kyrgyz military officers from the Ministry of Defense (MOD), Kyrgyz National Guard (KGNG), and Ministry of Emergency Situations and Civil Defense (MES) received a full year of English language instruction and follow-on military training. IMET-funded English language laboratories have been established at the MOD and KGNG headquarters, with a third laboratory to be set up at MES in FY 2000. Also in FY 1999, five Kyrgyz military and civilian officials participated in Expanded IMET (E-IMET) programs on civil-military relations and civilian control of the military. Another E-IMET course is planned for Kyrgyzstan in FY 2000. In addition, the MOD, KGNG, and MES participated in a partnership program with the Montana National Guard, which included medical assistance visits, basic infantry training, and mountain rescue and survival training.

U.S. Department of State – Science Centers: In FY 1999, Kyrgyzstan participated in research projects as a member of the International Science and Technology Center (ISTC), as well as in projects supported by the U.S. Civilian Research and Development Foundation (CRDF).

Energy and Environmental Programs

USAID Power-Sector Programs: USAID-funded advisors facilitated the adoption of a regulatory framework for the reform and privatization of Kyrgyzstan's electric-power sector. The Kyrgyz Government continued to move forward in implementing the State Energy Agency's multi-year tariff policy, which sets a framework for steadily increasing tariffs that will reach cost-recovering levels in 2000.

USAID Water Management Programs: USAID-funded advisors stressed the importance of concluding international treaties and other agreements on water pricing, quality and cost-recovery; and balancing water use among irrigation, residential, industrial and power-generation applications. All five Central Asian countries participated in seminars on regional water cooperation, and significant progress was made in developing a draft agreement on the management of the Syr Darya Naryn cascade.

Social Sector and Humanitarian Programs

USAID Health-Care Reform Programs: USAID's efforts to promote health-care reform in Kyrgyzstan continued for a fifth year, with an increased emphasis placed on integrated care at the primary level. The Issyk Kul family group practice (FGP) demonstration project was being replicated nationwide in close collaboration with the World Bank. About 500 family group practices have been formed, family group associations have been created, and a new clinical information system has been introduced. Also with USAID support, medical marketing and health promotion campaigns were implemented. Existing vertically organized health-care programs in areas such as tuberculosis, hepatitis, and reproductive health were scheduled to be reorganized along the lines of the FGP framework.

USAID Infectious Disease Programs: In FY 1999, USAID supported anti-tuberculosis activities through the U.S. NGO Project Hope and anti-hepatitis activities through the U.S. Centers for Disease Control and Prevention (CDC). Project Hope provided clinical and laboratory training in tuberculosis treatment methods in Bishkek and in the Chuy and Issyk Kul Oblasts (regions).

USAID Health Partnership Program: In FY 1999, USAID continued to fund the American International Health Alliance's (AIHA) Health Partnership Program in Kyrgyzstan. A memorandum of understanding for a new partnership was signed between the Kyrgyz Medical Academy and the University of Nevada School of Medicine. The partnership will focus on developing primary health care, with an emphasis on educating health professionals—in particular, faculty and curriculum development, and related educational materials for training and retraining community-based primary care practitioners.

USAID Reproductive Health Program: In FY 1999, USAID provided assistance in the area of reproductive health through its Family Planning Service Expansion and Technical Support (SEATS) Project. A total of 1,254 family physicians participated in USAID-sponsored training in family planning and received related informational and educational materials. In addition, SEATS provided gynecological equipment to 400 family group practices.

U.S. Department of Agriculture (USDA) – Food Aid: In FY 1999, USDA allocated \$24.83 million for the provision of approximately 80,750 metric tons (MT) of food commodities to Kyrgyzstan. Under a \$6.96 million Food for Progress program, the distribution and use of 10,750 MT of commodities was coordinated by three U.S. private voluntary organizations (PVOs): Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), the American Association of the Hematologists of the World for Children (AIA), and Mercy Corps International (MCI). In addition, under a government-to-government Section 416(b) agreement, USDA provided 70,000 MT of wheat valued at \$12 million to Kyrgyzstan, which was delivered in late 1999.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided over \$103 million in humanitarian assistance to Kyrgyzstan. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$1.42 million in transportation and grant funds to deliver \$19.53 million in targeted humanitarian assistance to the people of Kyrgyzstan. A number of small and medium-sized cargoes were delivered through U.S. charitable organizations, but the majority of this assistance was delivered in the form of high-value pharmaceuticals by the PVOs CitiHope and Provide Hope and in the form of U.S. Defense Department excess property through Counterpart International.

Disaster Assistance: In FY 1999, the U.S. Government provided almost \$206,000 to complete a levee on the Kugarta River to help the Suzak-Jalalabad Region recover from flood damage and prevent future flooding.

Cross-Sectoral Programs

Peace Corps: In FY 1999, approximately 80 Peace Corps volunteers were working in Kyrgyzstan. The volunteers worked primarily in rural parts of the country, focusing on small-business development, English language teaching and environmental education. As a result of the armed insurgency in southwestern Kyrgyzstan, all Peace Corps volunteers serving in affected areas were relocated to northern and eastern Kyrgyzstan.

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded approximately \$570,000 in small grants to 30 NGOs in Kyrgyzstan. Priority areas included private enterprise development, public administration, and civil society development, with a focus on NGOs and the media. (Please see Eurasia Foundation section in Part III of this report.)

Preview of FY 2000 Programs

The Kyrgyz Government highly values all types of U.S. Government-funded training and exchange programs, and has made special requests for assistance in implementing its new WTO obligations and in budget and fiscal planning. The Kyrgyz Government's handling of the October 1999 local elections made clear the need for increased training of both election commission members and domestic monitors in sufficient numbers so that they can cover the country's 2,000 polling stations and help reduce procedural irregularities during the parliamentary and presidential elections scheduled for 2000. On the security side, the Kyrgyz Government took full responsibility for controlling its borders from Russian Border Guards as of January 1, 1999, and will continue to need considerable assistance to do this job adequately, particularly along its southern border, where there is no border control infrastructure remaining from the Soviet era. The Kyrgyz Government has also made a high-priority request for help in establishing better border control and a disaster-response and mountain-rescue center. One of the U.S. Embassy's first International Visitor (IV) programs for FY 2000 sent an interagency team to the United States to focus on border control.

Under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will continue to provide assistance to prevent the proliferation of weapons of mass destruction (WMD), weapons technology and expertise in Kyrgyzstan in FY 2000. Continuing scientific collaboration programs will help prevent proliferation of weapons expertise and will redirect former Soviet weapons experts to peaceful pursuits. The U.S. Government will provide increased support to enhance Kyrgyzstan's export controls and border security, providing assistance with infrastructure development, equipment and training.

MOLDOVA

Political Overview

Prime Minister Ion Ciubuc resigned February 1, 1999, leading to a government crisis that lasted several weeks. After long negotiations and a controversial vote, Ion Sturza was confirmed as prime minister on March 12, along with one of the most reform-minded governments in the NIS. Throughout the remainder of FY 1999, Prime Minister Sturza promoted his reform program and reestablished Moldova's World Bank and International Monetary Fund (IMF) programs; however, Sturza faced the combined challenges of a narrow majority and mounting criticism, particularly regarding inadequate energy supplies, and his government fell on November 9. The Moldovan Government supported democracy and human rights in FY 1999, but the country remained divided, with the separatist region of Transnistria along the Ukrainian border being controlled primarily by ethnic Slavs. The self-proclaimed government of Transnistria displayed neither democratic principles nor adequate respect for human rights.

Economic Overview

Moldova made some progress on economic reform during mid-1999. By improving tax and customs collections, the Sturza government increased daily budget revenues to approximately \$100,000, compared to \$20,000 to \$30,000 under the Ciubuc government. However, the parliament's failure to pass a budget for the year 2000 and its failure to pass legislation to privatize the tobacco industry and a number of wineries and distilleries caused the World Bank and IMF to suspend \$150 million in credits and led to the government's downfall. To make matters worse, the 1998 Russian financial crisis continued to have a severe negative impact on Moldova: GDP was down by more than eight percent, while annual inflation was over 30 percent. Moldova's previously stable national currency, the leu, depreciated by 38 percent, and imports and exports were at an all time low, although Moldova did successfully expand its export markets, with exports to Central European and European Union countries increasing to 15 percent of total exports. However, Moldova's external debt rose to over \$1.3 billion, or more than 150 percent of the country's GDP. About one third of this debt was for energy and was mostly owed to the Russian gas company GazProm. Moldova continued to depend on foreign sources—GazProm in particular—for its energy needs in FY 1999.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$76.54 million in assistance to Moldova, consisting of \$43.93 million in FREEDOM Support Act funds, \$13.91 million in other U.S. Government funds, and \$18.69 million in U.S. Defense Department excess and privately donated humanitarian commodities. Technical assistance accounted for approximately \$35 million of this total. Land privatization and energy-sector privatization continued to be the main foci of U.S. Government

assistance to Moldova. Law enforcement, border control, and non-proliferation assistance were also heavily emphasized in FY 1999. A U.S. Military Liaison Team began operations in Moldova, and a humanitarian demining assessment team visit led to the recommendation that Moldova be included in the U.S. Government's Humanitarian Demining Program. USDA's Food for Progress Program provided wheat and wheat flour to Moldova, which particularly benefited the country's pensioners. USAID provided \$5 million in humanitarian winter heating fuel assistance. In addition to helping the neediest sectors of Moldova's population, the U.S. Government continued to promote a competitive, market-oriented economy, sound fiscal policies, transparent and accountable governance, and agricultural development, notably through partnerships.

Training and Exchange Programs

Since FY 1993, U.S. Government-funded exchange programs have brought almost 1,700 Moldovan citizens to the United States for short-term professional or long-term academic training, including some 330 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training: Although the formal training program run by the Academy for Educational Development (AED) in Moldova has concluded, USAID supported the training of more than 600 Moldovans in a number of ongoing project activities in FY 1999. Fiscal reform training for Finance Ministry staff, tax officials, and civil servants focused on macro-economics, fiscal policy, and tax collection. USAID's banking and accounting projects trained National Bank officials, university accounting professors, and professional accountants in International Accounting Standards (IAS) and computerization. In addition, USAID's Commercial Law Project provided training in the methodology of legal reform and legislative drafting.

U.S. Information Agency (USIA) Exchanges: In FY 1999, approximately 310 Moldovans traveled to the United States under USIA exchange programs, 120 of them on academic exchanges and 190 on professional exchanges. Program topics included educational reform, the principles of a market economy, agricultural reform, the development of a free press, and the principles of transparent governance and public service. For example, USIA's Community Connections program placed four groups of Moldovan farmers in host communities in the United States, as well as groups of Moldovan journalists, legal professionals and public administrators. Participants in USIA's International Visitor (IV) Program included the Minister of Education, presidential advisors, representatives of the Ministry of Foreign Affairs, and key members of Moldovan non-governmental organizations (NGOs).

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, USDA's Cochran Program continued to support agricultural reform in Moldova, organizing short-term exchange programs for a total of 15 Moldovan agriculturists.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships for four Moldovan participants. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

Trade and Investment Programs

U.S. Department of Commerce – Commercial Law Development Program (CLDP): In FY 1999, the CLDP continued to support Moldova's accession to the World Trade Organization (WTO), placing a resident trade advisor in Moldova. With foreign assistance and through its own efforts, Moldova reached the threshold of WTO entry in FY 1999, although it did not yet actually accede.

USAID Commercial Law Reform Programs: The Center for Legislative Reform of the University of Maryland's USAID-funded Institutional Reform of the Informal Sector (IRIS) Program continued its efforts to develop an adequate legal framework in Moldova—in particular, a body of commercial law based upon market principles. With substantial progress already made on a tax code and a law on securities, the program's main focus in FY 1999 was to help the Moldovan Government draft a new civil code to replace the country's Soviet-era civil code.

Western NIS Enterprise Fund (WNISEF): In FY 1999, the WNISEF continued to provide equity investment to support the development of small and medium-sized businesses in Moldova, with the goal of demonstrating the potential for investment in Moldova. In over four years of activity, WNISEF's investments in Moldova total \$11.3 million in three enterprises. In FY 1999, the WNISEF invested \$1.3 million in a food-processing enterprise that employs over 470 people.

Business and Economic Development Programs

In FY 1999, the U.S. Government continued to promote agriculture-led growth in Moldova as a basis for industrialization and export development. Land reform passed the halfway point on the road to privatizing 900 collective farms. Energy-sector privatization also advanced significantly in FY 1999, through an open tender for Moldova's five state-owned electricity distribution companies. Eighty percent of small enterprises have been privatized. U.S. Government support for Moldovan fiscal reform began to show dividends in the form of increased tax revenues, which were up almost 30 percent from the previous year.

USAID Land Privatization Assistance: The National Land Privatization Program remained a key feature of U.S. Government assistance to Moldova in FY 1999. By early 2001, virtually all collective agricultural land will be privatized. Thus far, 989,000 agricultural land titles for nearly 350,000 individual landowners have been issued. USAID-funded advisors designed a program to resolve the issue of collective farm debts. Under this program, historic debts to state and private creditors will be paid off and settled against social assets and tax vouchers. Remaining property will be distributed and the collective farms will be liquidated, allowing the new private farms to operate debt-free. A total of 79 farms have been liquidated, with over \$6.32 million in social property transferred to the state. Over 1,000 private real estate transactions have been concluded, including 500 secondary sales of agricultural land. USAID also funded a pilot mortgage loan program involving two Moldovan commercial banks and targeting small and medium-sized farmers who wish to obtain credit to purchase agricultural land. The program successfully executed and funded four mortgage loans, and expects to execute five to eight additional mortgage loans for the purchase of agricultural land by January 2000.

USAID Fiscal Reform Programs: USAID continued to promote fiscal reform in FY 1999, as Moldova moved closer to a unified tax code. With corporate and individual income tax laws already in place, and a value-added tax law having entered into force in 1998, a proposed excise tax law was submitted to the Moldovan Government in 1999 for approval. A draft property tax law is expected to be ready in early 2000. In addition, the Moldovan parliament's Center for Budgetary and Financial Analysis, established with technical assistance from USAID, developed its analytical ability to assist parliamentary committees in deliberations on fiscal and budget legislation.

USAID Financial-Sector Restructuring Programs: USAID also continued to support financial sector restructuring in Moldova in FY 1999. A market-oriented private banking sector was in place, and the role of Moldova's former state banks continued to decrease relative to that of the new private banks. Moldova's capital markets were in a growth phase in FY 1999, with trading taking place daily and the exchange operating as a self-regulating body. Regulatory bodies such as the State Commission for Securities Markets and the National Securities Depository, both of which were established with U.S. Government-funded technical assistance, remained in an early stage of development but were operational, carrying out oversight and licensing functions.

USAID Accounting Reform Programs: Moldova has adopted International Accounting Standards (IAS), and in FY 1999, USAID continued to help the Moldovan Government implement accounting reform. With USAID support, manuals on standards conversion and financial disclosure were distributed and some 1,500 Moldovan accountants were trained. The Association of Professional Accountants and Auditors of Moldova (ACAP) expanded its membership threefold, registering 1,000 members, and established five new chapters. USAID also conducted an accounting training program for professors, and helped business accountants develop their skills and knowledge of Western accounting procedures by providing them with extensive training.

U.S. Department of the Treasury – Technical Advisors: In FY 1999, Treasury Department resident advisors helped increase the capabilities of Moldovan officials to combat financial and economic crimes and manage the issuance of government securities. (Please see Treasury Department section in Part III of this report.)

Democracy Programs

Democracy Fund Small Grants Program: In FY 1999, the U.S. Embassy's Democracy Commission awarded 27 grants totaling almost \$171,000 to Moldovan independent media and NGOs involved in a variety of activities, including civic education; the promotion of human rights, including the rights of women, children and the handicapped; and the development of community information and training centers. The grants helped the recipient organizations cover their operating expenses, including start-up equipment purchases; newsletters, newspapers and other publications; and seminars and workshops.

American Bar Association – Central and East European Law Initiative (ABA/CEELI): In FY 1999, the USAID-funded ABA/CEELI program continued to support a judicial training center in Moldova that trained over 800 Moldovan judges, prosecutors, lawyers and other legal professionals during the course of the year. Also with ABA/CEELI support, the Moldovan Young Lawyers' Association conducted a seminar on local public administration for 35 lawyers, and the Independent Journalists' Center conducted a seminar on the draft law on access to information. The ABA/CEELI-supported Law Center held nine seminars in four cities, with a total attendance of 283 lawyers, judges, prosecutors, police officers, professors and students. The Law Center also undertook a heavy publishing load, including 19 volumes of international treaties ratified by Moldova, complete with commentary; three volumes of decisions of the Constitutional Court and Court of Appeals; Moldova's proposed criminal code; a text on human rights in Moldova; and twelve issues of the Romanian-language newsletter *Lawyer for the People*. In a joint project with the Soros Foundation, ABA/CEELI commissioned translations of treaties on domestic violence and the rights of women and sent 1,500 copies to lawyers, judges, members of parliament, and government officials.

International Foundation for Election Systems (IFES): With USAID support, IFES trained 300 election observers in Moldova in FY 1999, and held 45 seminars and roundtables on elections, public and local administration, NGO development, and independent media development, which were attended by a total of more than 2,000 participants. IFES also printed six issues of *Civic Voice*, a bimonthly Romanian- and Russian-language newsletter focusing on democracy-building, two special publications for newly elected local authorities, and a 120-page analysis of the May 1999 local elections. Other IFES publications included a guide for poll workers and a guide for domestic election observers. IFES also produced three series of weekly half-hour "Civic Voice" radio shows, broadcast on Moldovan National Radio and another radio network.

U.S. Department of State – Anti-Crime Training and Technical Assistance (ACTTA) Program: A number of U.S. Government-funded law enforcement and anti-corruption programs were conducted in Moldova in FY 1999. All levels of Moldovan law enforcement participated in training on a variety of high-priority issues, including anti-corruption techniques and advanced forensic investigative methods, combating money laundering, preventing domestic violence and combating organized crime. The U.S. Government also helped upgrade the operational capabilities of Moldova's Police Academy, forensic laboratories and the Customs Service. The ACTTA Program also supported a U.S. Customs Service advisor as part of the multilateral Southeast European Cooperative Initiative (SECI).

Energy and Environmental Programs

USAID Energy-Sector Programs: The privatization of Moldova's power sector moved to an advanced stage in FY 1999. With World Bank and USAID assistance, the Moldovan Government offered the country's five energy distribution companies for sale through an open and transparent tender. Negotiations with a European utility company for purchase of three of these networks were taking place in early FY 2000. The country's remaining distribution companies and three energy-generation companies are expected to be privatized in early 2000. USAID also continued to provide assistance to Moldova's National Agency for Energy Regulation (ANRE) in the areas of licensing, establishing tariffs and consumer standards.

American Bar Association – Central and East European Law Initiative (ABA/CEELI): In April 1999, ABA/CEELI opened an Environmental Protection Advocacy Center (EPAC), whose mission is to educate Moldovans on how to use legal remedies to address environmental problems. In FY 1999, the EPAC presented 31 seminars to 412 participants throughout Moldova.

Social Sector and Humanitarian Programs

Counterpart Humanitarian Assistance Program (CHAP): In FY 1999, the CHAP Program, which is co-funded by USAID and the U.S. Department of State, distributed over \$11 million in humanitarian supplies, medical equipment and farm machinery through 342 local organizations, benefiting some 300,000 Moldovans, including farmers and the disadvantaged, disabled and sick.

Winter Heat Assistance Program: USAID-funded coal deliveries were provided to 800,000 vulnerable members of Moldovan society in FY 1999, including 70,000 pensioners. Some 250 organizations and institutions benefited from this program, including schools, orphanages and hospitals.

U.S. Department of Agriculture (USDA) – Food Aid: In FY 1999, USDA allocated \$9.68 million for the provision of approximately 22,000 metric tons (MT) of food commodities to Moldova. USDA donated \$917,000 worth of rice, beans,

and vegetable oil to Moldova under its Food for Progress Program, and 20,000 metric tons of wheat valued at \$3.65 million under its Section 416 (b) Program. Distribution and use of these commodities was overseen by three U.S. private voluntary organizations (PVOs): the American Association of the Hematologists of the World of Children (AIA), the Citizens' Network for Foreign Affairs (CNFA), and the International Partnership for Human Development (IPHD).

Humanitarian Demining Program: In FY 1999, a humanitarian demining assessment team visit led to the recommendation that Moldova be included in the U.S. Government's Humanitarian Demining Program. Although the Moldovan Government was able to clear six of the seven minefields that were left behind after the country's 1992 conflict, it requested assistance in clearing the remaining minefield. Acceptance into the Humanitarian Demining Program is expected to result in the clearing of all landmines in Moldova by the end of FY 2000.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided over \$97 million in humanitarian assistance to Moldova. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$760,000 to deliver \$ 18.69 million in targeted humanitarian assistance to the people of Moldova. This assistance, which consisted of privately donated high-value pharmaceuticals, other privately donated commodities and U.S. Defense Department excess property, was provided primarily through the U.S. PVOs Counterpart International and CitiHope.

Security Programs

The ongoing Transnistrian separatist conflict, which is being exacerbated by the continued Russian military presence in Transnistria, remains a potential threat to regional security. To promote regional stability and security, the U.S. Government is supporting the efforts of the Organization for Security and Cooperation in Europe (OSCE) to negotiate a solution to the conflict and to facilitate the implementation of Russian commitments on military withdrawal. U.S. Government security assistance to Moldova is also aimed at preventing weapons proliferation. Moldova has engaged in an extensive Defense and Military Contacts Program with the United States, has expanded its participation in Partnership for Peace (PFP) exercises, and has made effective use of limited International Military Education and Training (IMET) funds. In addition, Moldova has developed a robust partnership program with the North Carolina National Guard.

Foreign Military Financing (FMF) Program: FY 1999 saw the continuation of a robust FMF program for Moldova. Initial expenditures totaled \$850,000, and an additional \$400,000 was made available from end-of-year funds, bringing Moldova's total FY 1999 FMF expenditures to \$1.25 million. The Moldovan Government used these funds to purchase mainly communications gear and night-vision goggles.

International Military Education and Training (IMET) Program: Moldova received \$485,000 in IMET funding in FY 1999. Twelve Moldovans received training under the IMET Program in FY 1999, bringing the cumulative total to 55 participants since the beginning of the program. In addition, two IMET-funded English language laboratories were set up, and 19 Moldovans were trained under the Expanded IMET (E-IMET) Program. Moldovan graduates of IMET programs have consistently assumed positions of increasing responsibility in their home country.

Partnership for Peace (PFP): Although repeatedly stressing its neutrality, Moldova nevertheless played an active role in PFP exercises and conferences in FY 1999: 220 Moldovans participated in PFP exercises and another 130 took part in PFP-related conferences, workshops and seminars.

U.S. Military Liaison Team (MLT): The U.S. Military Liaison Team in Moldova began operations on January 31, 1999. In FY 1999, the MLT conducted 19 activities with the National Army of Moldova, 12 of which were familiarization visits to Germany or the United States, and seven of which involved visits of U.S. traveling contact teams to Moldova. A total of 410 soldiers from the National Army participated in MLT-sponsored activities.

Export Control/Counter-Proliferation Programs: In FY 1999, the U.S. Government supported programs to prevent the proliferation of weapons, weapons technology and expertise in Moldova. The U.S. Defense Department /Federal Bureau of Investigation (DOD/FBI) Counter-Proliferation Program sent 40 Moldovan officials to a training program in Budapest. The DoD/U.S. Customs Service Counter-Proliferation Program provided training to 35 Moldovan officials in Chisinau and donated approximately \$100,000 worth of equipment to all Moldovan Government agencies with border control or counter-proliferation responsibilities. In addition, the U.S. Departments of State and Commerce brought Moldovan officials to two export-control programs in Washington and one in Bucharest, and the Department of State donated an X-ray van, worth approximately \$250,000, to Moldova's Customs Service.

Cross-Sectoral Programs

Peace Corps: In FY 1999, the Peace Corps placed 90 volunteers (PCVs) in Moldova in three project areas: teaching English as a foreign language (TEFL), health education and economic and organizational development. Moldova's 42 TEFL PCVs, who were placed primarily in villages and towns, incorporated problem-solving, critical thinking activities, and environmental content into their English-language curricula. They also organized workshops on new teaching techniques for teachers. A total of 14 health education PCVs were primarily assigned to schools in Moldova's regional centers, where they taught a variety of preventative health topics, but were particularly effective in teaching AIDS prevention and sex education courses—topics with which Moldovan teachers are not very comfortable. Working with several local youth NGOs, PCVs conducted peer-training workshops on sex education in three regions of Moldova. In addition, 32 economic and organizational development PCVs worked as catalysts for improving the management and organizational skills of their Moldovan host institutions and NGOs, and for promoting economic (primarily agribusiness) and social-sector development.

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded over 35 grants totaling \$400,000 to Moldovan NGOs, in support of activities in the areas of civil society, private-enterprise development, and public administration and policy. (Please see Eurasia Foundation section in Part III of this report.)

Preview of FY 2000 Programs

As described above, the U.S. Government expects to implement and complete a demining program in Moldova in FY 2000, which will involve the provision of over \$104,000 in demining equipment. In addition, a variety of new and more advanced law enforcement training programs are planned for Moldova in FY 2000. Further training is planned in methods to combat money laundering, organized crime, public corruption, violence against women, auto theft, drug-related activity and sex crimes. Training of Moldovan law enforcement personnel in computer and Internet use is also planned, as is continued assistance to the Moldovan Police Academy and forensic laboratories. U.S. Government-funded border modernization activities and Customs Service training will be continued and enhanced.

In FY 2000, USAID will complete its land and energy-sector privatization programs. USAID is also proposing to implement a three-pronged local government reform project that would promote fiscal autonomy, administrative efficiency, and democratic governance at the local level, as well as providing support for a one-stop investment-promoting center in Chisinau aimed at facilitating investment promotion and the start-up of small, medium-sized and large enterprises. USAID will help create up to 15 farm service centers connected to a network of small farm stores at the village level, thus moving the farm privatization project to a new stage.

Under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will continue to provide assistance to prevent the proliferation of weapons of mass destruction (WMD), weapons technology and expertise in Moldova in FY 2000. Projects proposed under scientific collaboration programs will help prevent the proliferation of weapons expertise and redirect former Soviet weapons experts in Moldova to peaceful pursuits. The U.S. Government will provide increased assistance to enhance Moldova's export controls and border security, build the country's legal infrastructure and provide export control officials with equipment and training. In addition, the U.S. Government has offered military relocation assistance to facilitate the removal of Russian forces from Moldova, as well as ammunition and equipment destruction and disposal.

RUSSIA

Political and Economic Overview

The disruptive effects of the August 1998 financial crisis, along with the appointment of two new prime ministers, caused Russia's government-led economic reform to make little progress in FY 1999. At the same time, however, fears of a return to communist-style economic planning were not realized. While international financial institutions, led by the International Monetary Fund (IMF), continued to work closely with the Russian Government, additional lending was kept to a minimum. Heightened scrutiny of Russia's endemic corruption problem and political uncertainty surrounding the multiple changes in government led to widespread pessimism regarding prospects for genuine structural reform. Nevertheless, Russia's economic performance in FY 1999 was better than many had expected.

The political atmosphere during FY 1999 was unsettled, due in part to the December 1999 Duma elections and the presidential elections, which were initially scheduled for June 2000, but were moved up to March 2000 as a result of President Yeltsin's resignation at the end of 1999. Prime Minister Primakov's government was in place from September 1998 to May 1999, with economic policy led by First Deputy Prime Minister Yuriy Maslyukov, a Communist Party leader and former head of the State Planning Committee. In May 1999, President Yeltsin replaced Primakov with then-Interior Minister Sergey Stepashin, who removed most Communist Party members from the government's economic team. In July, President Yeltsin named yet another new prime minister, then-Security Council Secretary Vladimir Putin, who was also quickly confirmed. Prime Minister Putin focused heavily on security issues and largely retained his predecessor's economic team, although many reform-minded officials left the government for the private sector. One constant figure throughout these changes was Viktor Gerashchenko, who has been the president of Russia's Central Bank since September 1998.

The Russian Government's monetary and fiscal policies were moderately disciplined in FY 1999. The Central Bank of Russia avoided highly inflationary policies and limited its financing of federal expenditures. Following the first sharp devaluations after the August 1998 financial crisis (from approximately 6 rubles to the dollar to 20 rubles to the dollar), the Central Bank maintained a relatively stable ruble exchange rate during FY 1999 under a managed float regime that relied, in part, on foreign exchange controls. By the end of FY 1999, the ruble had depreciated to approximately 26 rubles to the dollar. Imports dropped sharply, while exports fell only slightly, strengthening Russia's trade balance. On the fiscal side, the Russian Government, having been denied any access to external financing, used its own resources to service certain debts, such as money owed to the IMF and obligations of the Russian Federation. The government did not make timely payments on most of its internal debt and its external Soviet-era debt, which accounts for approximately 50 percent of its international obligations. Greatly improved revenue performance produced Russia's first budget surplus in 1999. However, in real terms, the Russian Government's budget shrank in 1999. In the area of structural reform, little real progress was made. Certain signs of positive movement, such as advances made on oil production-sharing legislation, were offset by negative actions, such as the apparent "reprivatization" of a large porcelain factory in St. Petersburg, which may—if upheld by the courts—result in two U.S. investment funds losing their controlling shares in this company.

Nevertheless, some economic bright spots appeared in the aftermath of the financial crisis. Increased industrial production, expansion in energy and natural resource exports and trade surpluses well above the previous year's levels helped lead to positive real economic growth in FY 1999. Demand for cash payments increased, reducing the level of barter transactions in the economy. Unemployment eased and the Russian Government eliminated its pension arrears. However, the sustainability of these positive advances is not certain, given the lack of structural reform and the continued weakness of important sectors of Russia's economy. For example, Russia's decimated banking system, the assets of which were cut in half by the 1998 financial crisis, showed no signs of recovery. Interest rates remained high. The problems of crime and corruption continued, and investors continued to have problems protecting themselves due to weak rule of law and a lack of transparency in corporate governance. As a result, foreign and domestic investors' confidence remained low in FY 1999, and their level of investment in Russia was negligible. The number of Russians living below the poverty line increased to 35 percent. Domestic demand, consumption and investment remained at levels below those of the previous year. These difficulties are likely to plague Russia's economic progress as long as badly needed structural reforms continue to be deferred.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$1.99 billion in assistance to Russia, including \$167.98 million in FREEDOM Support Act funds, \$1.16 billion in U.S. Agriculture Department (USDA) funds (including a concessional loan valued at \$522.8 million provided to the Russian Government under USDA's Food for Progress Program), \$389.40 million in U.S. Defense Department (DoD) funds, \$236.13 million in U.S. Energy Department (DOE) funds, \$17.72 million in other U.S. Government funds, and \$19.92 million in DoD excess and privately donated humanitarian commodities. USAID programs accounted for roughly half of the total FREEDOM Support Act-funded assistance provided to Russia in FY 1999—approximately \$80.0 million, including \$20.0 million for small-business development and micro-credit programs, \$12.5 million for health programs, \$12.2 million for the elimination of trade impediments, \$8.2 million for democratic reform programs, \$5.9 million for Eurasia Foundation programs, \$6.4 million for environmental programs, \$5.9 million for training programs, \$4.0 million for partnership programs, \$355,000 for energy programs and \$5.0 million for other programs. As in FY 1998, FREEDOM Support Act-funded assistance to the Government of Russia continued to be subject to a 50-percent cut mandated by the U.S. Congress.

Implementation Problems

On May 4, 1999, President Yeltsin signed new legislation addressing the issue of tax exemptions for assistance, an important step towards ensuring that U.S. Government-funded assistance programs in Russia receive the tax-exempt status to which they are entitled under U.S.-Russian bilateral agreements. However, problems with the new law resulted in confusion regarding the means by which assistance providers can receive the tax- and duty-exempt status to which they are entitled. Outstanding questions included a failure to address income and corporate tax issues; unworkable implementing regulations for the registration, certification and control of targeted use; and a lack of implementing regulations on value-added tax and humanitarian assistance. The U.S. Government continued its efforts to work with Russian federal officials to resolve these problems—in some cases, with the help of G-7 and other donors. Although there was substantial progress on taxation of assistance issues in FY 1999, the Russian Government has not completely fulfilled its obligations under a number of existing bilateral agreements. These include a 1992 general agreement and a separate 1992 agreement covering the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program. The first of these agreements entered into force upon signature and has neither expired nor been abrogated formally by the Russian Government, but implementation has long been hampered by the absence of adequate legislation and procedures for exempting assistance from all forms of taxation and customs duties. In 1999, the U.S. and Russian Governments agreed to a seven-year extension of the CTR agreement, including its provisions guaranteeing tax exemptions. The so-called Pankov-Pickering Agreement, an interim arrangement first signed in 1996 and extended several times thereafter to defer the imposition of taxes or duties until the adoption of necessary legislation, is no longer in force. The U.S. and Russian Governments had nearly concluded the negotiation of a new, interim arrangement in April 1999, but that effort was not pursued after the long-delayed adoption of Russian legislation addressing these issues.

Other difficulties encountered by U.S. Government-funded assistance programs included the Russian Government's limited administrative capacity and lack of efficiency. Similarly, economic development programs faced problems as a result of the lack of Russian political consensus on economic reform. In addition, to express its opposition to NATO action in the former Yugoslavia, the Russian Government froze its participation in two U.S. Government-funded security assistance programs—the International Military Education and Training (IMET) Program and the Foreign Military Financing (FMF) Program—for most of FY 1999.

Cross-Sectoral Programs

Regional Initiative (RI): In FY 1999, the U.S. Government's Regional Initiative (RI) expanded its activities more broadly into Russia and reinforced the regional focus of other U.S. Government-funded assistance programs in Russia. RI coordinators resident in Novgorod, Samara and the Russian Far East increased the effectiveness of U.S. assistance programs in their regions and facilitated links among the full range of U.S. and Russian private and public entities with interests in these regions. The U.S. Government plans to establish a fourth RI site in Tomsk in FY 2000.

- **Novgorod RI:** Most technical assistance programs in Novgorod were completed and phased out in the first half of FY 1999, as scheduled. However, the region's strong track record on reform and continued interest on the part of the Novgorod Administration led to a decision to extend the Novgorod RI and implement new programs in FY 2000 in the following areas: international accounting standards (IAS), public finance reform, assistance in the start-up and registration of new small and medium-sized enterprises, and the development of non-governmental organizations (NGOs). The Novgorod RI focused on sharing its lessons learned with other regions of Russia through participation in key regional conferences. The Novgorod RI Coordinator launched a local small-business working group and plans to transform it into a foreign investment advisory forum, similar to one in Samara (see below).
- **Samara RI:** In FY 1999, the Samara RI focused on further improving the working relationship between the Samara Administration and the local investment community, accomplished through two new organizations. A new Foreign Investment Advisory Council (FIAC), which is composed of foreign business representatives, the oblast (regional) administration and duma (legislature), and the RI Coordinator, provided input on new investment legislation and helped resolve local business problems. The Investment Promotion Unit, which is directly subordinate to the Governor of Samara Oblast (Region), was established as a new component of the oblast administration and was an effective point for disseminating trade and investment information. Due to the continuing impact of Russia's 1998 financial crisis, there were no new investments in Samara during FY 1999, although the Nestle Corporation decided to expand its existing investment and McDonald's opened its first franchise in Samara.
- **Russian Far East RI:** The Russian Far East RI (RFE-RI), which is based in both Khabarovsk and Sakhalin, facilitated ties between Sakhalin and the State of Alaska, in particular by organizing major presentations in the United States and Russia on the Russian Far East's infrastructure development plans, thereby promoting regional initiatives to reinvest oil

profits into infrastructure development and energy efficiency projects. The RFE-RI facilitated links between the sister states of Amur and Wisconsin, and worked to strengthen the RFE's weak banking sector through the establishment of a credit union and bank association. The RFE-RI also supported the development of several business associations and a Foreign Investment Advisory Council. Through training, development grants and coordination, the RFE-RI helped launch commercially based environmental small businesses.

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded approximately 230 small grants totaling \$8.59 million throughout Russia. The Foundation's field offices in Moscow, Saratov and Vladivostok awarded approximately \$5.7 million in grants in FY 1999, increasing the total number of the Foundation's grants in Russia to roughly 1,600 since 1994, with a cumulative value of over \$40 million. In addition to its "open-door" grant-making program, the Eurasia Foundation also implemented targeted initiatives to address specific issues. Under its Rule of Law Program, the Foundation awarded 15 grants to organizations working on anti-corruption measures such as budget transparency and procurement reform, contributing also to cross-sectoral anti-corruption efforts in the regions. To address Russia's overburdened court system, the Foundation conducted a grant competition and awarded 13 grants to support the development of alternative dispute resolution mechanisms through training, public education, and pilot demonstration projects. With financial support from the Ford Foundation, C.S. Mott Foundation and Open Society Institute, the Eurasia Foundation's NGO Resource Center Program helped foster cross-sectoral collaboration and helped Russian NGOs develop sustainable financial and institutional development strategies. In addition, the Eurasia Foundation administered the U.S. Embassy's Contemporary Society Small-Grants Program. (Please see Democracy Programs section below.)

Economic Restructuring Programs

USAID Fiscal Reform Project: In FY 1999, USAID's fiscal reform activities focused on tax reform and budget management at all levels of government. At the federal level, USAID-funded technical experts worked with State Duma (parliament) deputies and Russian Finance Ministry officials on several aspects of tax reform that were the subject of ongoing legislative efforts. In FY 1999, progress was also made on improving the effectiveness of tax administration through amendments to Russia's tax code, and work was under way on simplifying the country's personal income tax and value-added tax structures. At the regional level, USAID spearheaded the implementation in five regions of a pilot program to reform regional inter-budgetary relations with municipalities, resulting in the crafting of FY 2000 regional budgets that were more transparent than in previous years.

USAID Accounting Reform Programs: In FY 1999, two USAID-funded projects focused on the promotion and adoption of International Accounting Standards (IAS) in Russia. These projects conducted training seminars for users of financial statements, and supported the translation of IAS into Russian. Project activities were conducted in two Regional Initiative sites—Samara and Novgorod—and other cities by Carana Corporation and the American Chamber of Commerce/International Center for Accounting Reform (ICAR), respectively. Together, these projects have trained 3,670 people and published over 3,000 copies of Russian-language books on IAS.

USAID Think-Tank Support Project: In FY 1999, USAID continued to promote the use of economic analyses by Russian Government decision-makers, funding 27 research papers by experts at the Institute of the Economy in Transition on topics ranging from the Russian banking crisis to a state's social obligations. Building on this, USAID launched a major new think-tank support project with the Moscow Public Science Foundation in FY 1999, which will increase support for Russia's emerging and existing think tanks, with more of an emphasis on the country's regions.

USAID Banking and Mortgage Programs: In the wake of Russia's 1998 financial crisis, USAID worked with other donors, including the World Bank, to find ways to help restructure Russia's banking system. In FY 1999, USAID provided \$2 million in banking-sector assistance. The USAID-supported Financial Services Volunteer Corps (FSVC) provided technical assistance to bankers on legal and regulatory issues, as well as the internal management and structure of selected banks. At the request of the Central Bank of Russia, USAID also financed a bank support initiative to promote the adoption of IAS by Russian banks. Mortgage development efforts under USAID's Housing Sector Reform Project included assistance in the development of a mortgage law, a standard-setting handbook, and a mortgage-lender certification course, which the Institute for Urban Economics now offers on a self-sustaining basis. With USAID support, the Urban Institute and the Federal National Mortgage Association (FNMA or Fannie Mae) provided technical assistance to the Russian Agency for Housing Mortgage Lending focusing on the development of a secondary mortgage-market system.

U.S. Department of the Treasury – Technical Advisors: In FY 1999, Treasury Department resident advisors worked in Russia in the areas of tax administration and financial-sector reform. (Please see the Treasury Department section in Part III of this report.)

Business and Economic Development Programs

USAID Small-Business Development Programs: In FY 1999, USAID's small-business development programs continued to have a regional and grassroots focus in Russia. The launching of a new micro-enterprise lending project in Sakhalin increased to three the number of USAID-sponsored non-bank credit programs in Russia. During FY 1999, these programs made \$1.9 million in micro-loans to a total of 1,200 Russian borrowers, increasing the cumulative totals to \$9.0 million in loans issued to 5,800 Russian borrowers. USAID's small-business training programs were largely unaffected by the 1998 economic crisis, as the demand for such training remained high. Since 1994, USAID has helped train over 280,000 Russians in how to start and run a small business. In FY 1999, training topics included business planning for women entrepreneurs, business communication, human-resource management, and business idea analysis. Business volunteer assistance, utilizing experienced American entrepreneurs, also continued in FY 1999. USAID launched two components of a new project—Entrepreneurial Business Support (EBS)-West and EBS-East—with headquarters in Moscow and Vladivostok, respectively. During FY 1999, EBS-West and EBS-East provided technical assistance through U.S. business volunteers to 148 Russian businesses, ranging from small businesses to medium and light industry. After a Russia-wide competition involving over 300 Russian business support institutions, USAID's Business Support Project selected 32 of them to provide USAID-funded technical assistance and training to local entrepreneurs.

Peace Corps – Economic Development Program: In FY 1999, Peace Corps volunteers provided training and consulting services at the grassroots level throughout Russia with the aim of providing owners of small and medium-sized businesses, as well as undergraduate students, with a working knowledge of the principles of market economics and practical business skills, and promoting NGO development. As in previous years, several thousand Russians participated in these training programs.

The U.S.-Russia Investment Fund (TUSRIF): In FY 1999, TUSRIF took the first step towards its privatization by launching Delta Capital Management, a private company that will manage TUSRIF and promote private equity investment in Russia. TUSRIF makes equity investments in Russian enterprises and Russian-American joint ventures and provides loans to small and medium-sized businesses through its partner banks. Due to the continued effects of Russia's 1998 financial crisis, TUSRIF disbursed only \$12 million in FY 1999. Some examples of TUSRIF equity investments made during FY 1999 include positions in the BiTech Petroleum Company in the Komi Republic and in Agribusiness Partners International, an investment fund focusing on the food-processing industry. By the end of FY 1999, TUSRIF's total investments since the beginning of the program totaled approximately \$144 million, and TUSRIF had drawn down a total of \$170 million from its USAID grant. Reflows are currently running at approximately \$7.5 million a year. The financial performance of TUSRIF's equity portfolio was mixed in FY 1999, due mainly to last year's financial crisis. TUSRIF has made a strategic decision to focus on Russia's financial sector, leasing, and consumer lending, such as auto loans and mortgages. In FY 1999, TUSRIF particularly made headway in its leasing program, which began in the Rostov region but is currently being expanded nationwide. TUSRIF also has ambitious plans to expand its mortgage program, which is currently operating through partner banks in Moscow, St. Petersburg and Sakhalin Island. TUSRIF plans to establish a mortgage bank, which would be a registered Russian financial entity, and would engage in both loan origination and securitization of mortgages in order to begin developing a secondary mortgage market. TUSRIF will also continue to emphasize its small loan program.

Support for EBRD Small-Business Programs: In FY 1999, the USAID-supported small-business loan program implemented by the European Bank for Reconstruction and Development (EBRD) granted over 5,400 loans totaling \$43.1 million to Russian micro- and small enterprises, compared to over 7,800 loans totaling \$117.8 million in FY 1998. Since its inception in 1994, the program has granted over 29,000 loans totaling \$364 million, and its outstanding portfolio as of the end of FY 1999 consisted of 5,044 loans worth \$53.4 million. Prior to Russia's August 1998 financial crisis, the program's over-30-day arrears rate stood at 2.3 percent; as of the end of FY 1999, the over-30-day arrears rate in the program's remaining active banks stood at 5.25 percent.

Trade and Investment Programs

U.S. Department of Commerce – Business Development Committee Initiatives: In FY 1999, these initiatives included funding for the U.S. West Coast-Russian Far East Ad Hoc Working Group and for the “ClearPac” customs clearance facilitation project. (See U.S. Commerce Department section in Part III of this report.)

U.S. Department of Commerce – Business Information Service for the NIS (BISNIS): Please see the U.S. Commerce Department section in Part III of this report.

U.S. Department of Commerce – American Business Centers (ABCs): Please see the U.S. Commerce Department section in Part III of this report.

Training, Exchange and Educational Reform Programs

Since FY 1993, U.S. Government- and Congressionally-funded exchange programs have brought almost 39,600 Russian citizens to the United States for short-term professional or long-term academic training, including over 5,900 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

Library of Congress – Russian Leadership Program: Authorized in May 1999 by an act of Congress (P.L. 106-31), the Russian Leadership Program (RLP) of the Library of Congress, known in Russia as the Open World Program, was the leading U.S. exchange program in Russia in FY 1999. RLP brings young Russian public-sector decision-makers to the United States for short-term stays to learn about the multi-layered U.S. political system first hand, to share information and insight about Russia with American counterparts, and to identify opportunities for cooperation. From late July through September 1999, just under 2,000 participants from 77 regions across Russia, including 36 State Duma deputies and six members of the Federation Council (Russia’s lower and upper houses of parliament, respectively), traveled to the United States for ten days of meetings, consultations, and site visits designed to foster professional and cultural contacts between U.S. and Russian counterparts in government, business and non-profit organizations. Communities and families throughout the United States—including Members of the U.S. Congress—hosted the Russian participants. Funded directly by the Library of Congress, RLP was administered by the American Councils for International Education (ACIE, formerly ACTR/ACCELS). Russian media reports and discussions with RLP participants confirmed the program’s positive contributions to the U.S.-Russian bilateral relationship. The U.S. Congress has earmarked \$10 million in FY 2000 FREEDOM Support Act funding for the RLP, which will continue to bring young Russian leaders to the United States.

U.S. Information Agency (USIA) Exchanges: To date, over 26,700 Russians have participated in USIA professional and academic exchange programs, which focus on developing the skills needed to build a civil society and a market-based economy. In FY 1999, almost 3,400 Russians traveled to the United States under these programs.

USIA Professional Exchange Programs: In FY 1999, over 2,200 Russian citizens traveled to the United States under USIA professional exchange programs.

- **Presidential Management Training Initiative (PMTI):** In spring 1998, USIA launched PMTI in response to President Yeltsin's call to Russia's Western partners to provide training to mid-level managers of Russian firms. Modeled after the highly successful Business for Russia/Community Connections Program (see below), PMTI was a cooperative project between the U.S. and Russian Governments that organized community-based business internships for Russian managers in U.S. companies. As of the end of FY 1999, a total of 260 Russian business managers had participated in PMTI. The Russian Government established a federal organization to screen applicants and select participants for in-country training and foreign internships; however, to ensure the selection of qualified applicants with the necessary language skills, USIA established an interview process to select finalists from a pool of individuals recommended by the Russian Government. The in-country training, which preceded the U.S. internships and was conducted by institutions of higher learning in various parts of Russia, included management and language skills and lasted from one to three months. As a sign of its commitment to the program, the Russian Government covered the cost of international airfare for PMTI participants.
- **Business for Russia (BFR)/Community Connections:** An estimated 880 total participants will take part in Community Connections programs in FY 1999. Under USIA’s BFR Program, a total of 317 Russian entrepreneurs and 23 local government officials familiarized themselves with U.S. business and government structures by participating in U.S.

community-based internships in FY 1999. This brings the total number of BFR participants since FY 1994 to over 2,400. In addition to exposing Russian entrepreneurs to American business practices, BFR also achieves the secondary objective of acquainting Russian participants with American society and culture through homestays and cultural and social events. USIA's Community Connections Program targets non-English-speaking Russians in the fields of business development, NGO administration and educational administration. Community Connections participants from individual Russian communities visit U.S. communities in groups of ten, to study U.S. practices in their professional areas. In FY 2000, three new topics will be added to the Community Connections Program: youth advocacy, information access and cultural preservation.

- **Productivity Enhancement Program (PEP):** In FY 1999, USIA continued to fund the Productivity Enhancement Program (PEP) implemented by the Center for Citizen Initiatives (CCI), which arranges business internships throughout the United States using community-based resources such as Rotary Clubs. In FY 1999, approximately 700 Russians participated in PEP, which has arranged internships for a total of 1,525 participants since its inception in 1996. PEP participants pay for their own travel and per diem, while USIA and the U.S. host communities cover training costs.
- **International Visitor/FREEDOM Support Grant Program:** In FY 1999, a total of 327 Russians from various professions traveled to the United States under USIA's International Visitor (IV)/FREEDOM Support Grant Program, bringing the total number of participants to 1,105 since FY 1992.
- **Parliamentary Exchanges:** In FY 1999, USIA organized exchange programs for members and staff of Russia's State Duma (lower house of parliament) and regional parliaments in preparation for the December 1999 Duma elections. Three delegations consisting of a total of 13 members and staff traveled to the United States, bringing the total number of parliamentary participants since FY 1992 to 160 deputies and 83 staff.

USIA Academic Exchange Programs: In FY 1999, approximately 1,100 participants—65 percent of whom were under the age of 30—traveled to the United States under USIA's nine academic exchange programs, which included practical internships. Participants returned home with a deeper understanding of the foundations of American democracy and market economics, as well as of U.S. concepts of government, civic activism and social responsibility.

- **Secondary School, Undergraduate and Graduate Exchanges:** In FY 1999, 305 Russian high school students traveled to the United States under USIA's Future Leaders Exchange (FLEX) Program. FY 1999 funding for the High School Linkages program provided opportunities for approximately 350 Russian and 350 U.S. students to travel on high-school exchange visits. The FREEDOM Support Act Undergraduate Exchange Program brought 64 Russian undergraduates to the United States, and the Graduate Exchange Program brought 64 Russian graduate students to the United States. Announced at the Clinton-Yeltsin summit in 1998, USIA's Young Leaders Program brought 14 Americans to Russia and 54 Russians to the United States for a program that combines academic study with public service internships.
- **Faculty Programs:** In FY 1999, the Teaching Excellence Awards (TEA) Program awarded 30 Russian finalists and 12 American finalists with an opportunity to participate in a professional development seminar alongside their foreign counterparts, and provided much-needed educational materials to 195 Russian semifinalists. Other FY 1999 programs for teachers and scholars included the "Partners in Education" Program (74 Russian participants), Fellowships in Contemporary Issues (21 Russian participants), the Regional Scholar Exchange Program (28 Russian participants), the Junior Faculty Development Program (50 Russian participants) and the Fulbright Program (42 Russian participants).
- **University Partnerships:** In FY 1999, USIA's NIS College and University Partnerships Program (NISCUPP) supported nine new partnerships between Russian and U.S. educational institutions focusing on a wide range of topics, including economics, business administration, law, political studies, public administration and social sciences.

USIA Alumni Programs: Maintaining contact with and between alumni of USIA exchange programs is a high priority, and every effort is made to reinforce the program experience after participants return home. Alumni activities organized in Russia in FY 1999 included conferences, networking opportunities, career development seminars, job forums and U.S. Embassy and Consulate events. Strong alumni associations have been established by FLEX, Muskie/FSA and scholar program alumni. In FY 2000, USIA will increase its focus on alumni of professional exchange programs, in particular by providing them with Internet access.

USIA Women's Leadership Programs: In FY 1999, USIA provided over \$560,000 in support of three programs for female NGO activists and community leaders. These programs helped the participants acquire a wide range of organizational skills, establish links with other NGOs, encourage grassroots activism, establish training centers, and learn how to combat domestic violence. One program addressed the need to develop the role of women in addressing issues of women's and children's health. Other topics included ethics in the public sector, prevention of trafficking of women, and management and financial reform of universities.

USIA Distance-Learning Partnerships: In FY 1999, USIA established four partnerships to expand the ability of Russian institutions to teach business and management courses through the use of distance-learning technology.

USAID Training Programs: Since 1993, over 8,600 Russian professionals have participated in USAID-funded training programs in the United States, third countries and Russia. Since its inception in January 1997, USAID's Global Training for Development (GTD) Project has conducted 57 short-term training programs in the United States, third countries and Russia for almost 2,000 Russian professionals. In FY 1999, some 640 Russian citizens received USAID-funded training: some 290 of them in U.S.-based programs and 350 in in-country programs. Of the 601 Russian professionals who have participated in U.S. and third-country GTD training programs, 132 were given specialized in-country follow-up training in FY 1999. USAID's support for the Presidential Management Training Initiative (PMTI) consisted of in-country follow-up workshops for 120 PMTI alumni of U.S. and other Western-funded internship programs (including Germany, France, Canada, Japan, Holland and others). Topics included human resources management, innovative techniques in management, marketing, comparative legislation and others.

Peace Corps English-Language Training: In FY 1999, Peace Corps English-teaching volunteers in Western Russia taught secondary school students and undergraduates; trained English teachers; supported English language associations, clubs, resource centers and computer labs; held conferences; updated existing English-teaching textbooks and wrote new ones. In FY 1999, 58 volunteers reached some 7,000 students and 1,800 teachers in 21 universities and institutes, 31 secondary schools and three in-service training centers in 28 cities. The Peace Corps also began to expand its English-teaching program into new regions, such as Novosibirsk.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships to 204 Russian managers and scientists. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, USDA's Cochran Program continued to support agricultural reform in Russia, organizing short-term exchange programs for some 50 Russian agriculturists.

Democracy Programs

USAID Independent Media Programs: A part of the U.S. Government's comprehensive response to the challenges posed to Russia's independent media by the country's August 1998 financial crisis, USAID significantly broadened its journalism training and media-related business support activities in FY 1999.

- **Internews:** USAID-funded Internews provided technical assistance to over 300 regional television stations in 81 of Russia's 89 regions. A new training forum called "Local Time"—a series of regional competitions/seminars in eight of Russia's time zones plus a final round in Moscow—enabled 30 to 50 stations from each region to compare programming, have access to professional training, broaden their contacts with national network executives, and have access to expert legal advice from the Moscow Media Law and Policy Center, Glasnost Defense Fund and the National Association of Telebroadcasters. Internews also launched a coordinated series of regional media advertising-support activities in 67 cities throughout Russia, resulting in the formation of a National Association of Regional Advertising Agents. In addition, Internews provided production support grants to 27 regional non-state television stations during the period of sharply decreased media advertising revenues that followed the financial crisis. Internews also launched a newsroom computerization program and an Internet-based news exchange network called "InterNovosti," and contributed to the establishment of network of media organizations that worked to loosen government controls on local media.
- **National Press Institute:** Since 1993, the USAID-supported National Press Institute (NPI) and the Media Viability Fund, which is co-financed by USAID and the Soros Foundation, have provided technical support to more than 1,500 regional non-state regional newspapers in over 70 regions of Russia. In May 1999, NPI established a new legal serv-

ices program to help regional independent newspapers defend their rights and oppose encroachments by local authorities. In FY 1999, NPI conducted over 800 press conferences and professional training events in its seven regional press centers located in Moscow, St. Petersburg, Yekaterinburg, Samara, Vladivostok, Nizhny Novgorod and Novosibirsk.

USIA Media Programs: In FY 1999, USIA administered and coordinated a number of programs that brought Russian media representatives to the United States on professional development programs. Three cooperative television productions (TV co-ops) provided the opportunity for ten Russian television professionals to travel to the United States and produce high-quality television programming for large Russian viewing audiences on various aspects of American life, including Y2K preparedness, civil-rights protection in a multi-ethnic society, and U.S. television news. A USIA print media program focusing on journalistic ethics brought six journalists from throughout Russia to the United States. The journalists spent three weeks in the United States, meeting with representatives of media, government and civic organizations. Upon returning home, the journalists published articles in their respective papers on their experiences in the United States. USIA also participated in a \$10 million independent media initiative launched by Secretary of State Madeleine Albright during her visit to Moscow in January 1999. Under this initiative, USIA brought U.S. speakers in the field of journalism to Russia and organized media internships in the United States for Russian journalists.

USAID Rule-of-Law Programs: In FY 1999, USAID continued to work with the Russian judiciary, with both the commercial (arbitrage) courts and the courts of general jurisdiction. During the last year and a half, over 1,300 Russian judges and court administrators have participated in USAID-funded programs aimed at improving the participants' understanding of law and judicial ethics, improving court administration, and improving continuing judicial education. USAID's support for the Russian Supreme Court's new Judicial Department, the entity now responsible for administering the courts of general jurisdiction, contributed to the improvement of judicial administration in Russia. USAID also fostered partnerships between U.S. and Russian judicial entities, including a partnership between Russia's Judicial Department and the Administrative Office of the U.S. Courts. A special program involving the Supreme Qualifying Collegium, the Russian judicial-branch entity responsible for enforcing discipline against judges accused of ethics violations, raised awareness of judicial ethics issues among hundreds of judicial leaders from Russia's regions.

USAID Support for Human-Rights Monitoring: In FY 1999, USAID provided support for a human-rights monitoring program that covers 30 of Russia's regions and produced human-rights reports for all 30 regions and a report about Russia's national human-rights situation. Other USAID-funded human-rights programs offered programmatic support and made facilities available to NGOs working on issues such as the rights of minorities, refugees, psychiatric patients, and other groups.

USAID Political Process Programs: In FY 1999, USAID continued to support increased participation by Russian citizens in democratic political processes, with a special emphasis on the December 1999 elections to the State Duma (Russia's lower house of parliament) and the presidential elections now scheduled for March 2000. The USAID-supported International Republican Institute (IRI) and the National Democratic Institute for International Affairs (NDI) helped democratically oriented Russian political parties strengthen their local party organizations and increase party membership. IRI and NDI trained more than 3,000 political party leaders and civic and political activists in 12 key regions. IRI provided almost \$122,000 in subgrants to Russian NGOs whose mission is to promote democratic development. These subgrants supported the training and research programs of four regional NGOs. Through its NGO Advocacy Program, NDI facilitated the formation of a coalition of national civic organizations whose mission is to organize and coordinate election-oriented advocacy activities. The coalition is comprised of seven national civic organizations, all of which have regional affiliates. In addition, through its Moscow office and resource center, the USAID-supported International Foundation for Election Systems (IFES) provided technical assistance to Russia's Central Election Commission (CEC), 89 subject (regional) election commissions (SECs) and 2,700 territorial election commissions (TECs). During August-September 1999, IFES and the National Press Institute (NPI) conducted a unique series of election-related seminars for media representatives, which gave them a chance to interact with CEC representatives. Six cities hosted these seminars, bringing together SEC members and journalists from a total of more than 35 regions. In FY 1999, USAID also continued to support the educational program of the Moscow School of Political Studies (MSPS), which conducted training and roundtables for approximately 300 Russian politicians and policy-makers in Moscow and in the regions. USAID support enabled MSPS to translate and publish, as part of an MSPS Library series, four Western scholars' books on democratic theory and practice, and on liberal economics. Some 12,000 copies of these books were distributed to the State Duma, presidential administration, governmental institutions, universities and libraries.

USAID Institutional Partnerships: In FY 1999, USAID's Sustaining Partnerships into the Next Century (SPAN) Project supported 24 small, targeted and innovative partnerships between Russian and American organizations in the areas of

business development, civil society, health, environment and rule of law. By the end of 1999, 11 additional U.S.-Russian partnerships had been selected for the SPAN Project, whose focus had been expanded to include social-sector reform and women's issues. SPAN partners carried out training activities in various sectors. Of the 550 participants trained each quarter, some 200 were trained in business development, 105 in civil society, 175 in health and 70 in environment. Since its inception in FY 1997, the SPAN Project has trained over 5,700 Russian professionals, and SPAN partners have produced more than 90 informational products that will be advertised on SPAN's Internet website and partner listserv.

Among the many partnerships nurtured by the SPAN Project is one between the Sklifosofskiy Burn Center and Lilius International, who together established the first skin graft bank in Russia and laid the foundation for creating a network of such banks in Russia. The partners continuously share information and collaborate in research and treatment efforts. Another highly successful SPAN-supported partnership is one between the All-Russian Society of the Disabled "Perspektiva" and the World Institute on Disability, who together implemented a program for disabled youth that now involves 46 disabled-youth activists—three times as many as originally planned—and many volunteers in seven Russian cities, including Ukhta, Syktyvkar, Perm, Krasnodar and Krymsk. In addition to conducting disability awareness workshops for over 10,451 Russian school children in 370 classrooms in 76 schools, these activists also implemented an intensive media campaign that yielded 70 articles in local newspapers, three radio segments, and five television segments on local, national and international stations.

U.S. Department of State – Anti-Crime Training and Technical Assistance (ACTTA) Program: In FY 1999, ACTTA law enforcement training programs continued to reach a cross-section of Russian society, providing training to law enforcement personnel, court officials, NGOs and health professionals who deal with domestic violence. The Federal Bureau of Investigation (FBI), the U.S. Justice Department's Office for Prosecutorial Development, Assistance and Training (DOJ/OPDAT); the U.S. Drug Enforcement Administration (DEA); the U.S. Immigration and Naturalization Service (INS) and the U.S. Secret Service (USSS) all continued to conduct core training activities with their Russian counterpart agencies. In addition, organizations such as the International Association of Chiefs of Police (IACP), Sister Cities International and Project Harmony operated an ACTTA-funded program of law enforcement exchanges at the local level, involving police chiefs from across the United States and Russia.

Contemporary Society Small-Grants Program: In FY 1999, the U.S. Embassy's Contemporary Society Program, which was administered by the Eurasia Foundation, awarded 25 grants totaling approximately \$500,000 to support projects in the areas of rule of law and democratic processes (four grants), community development (12 grants), and education and cultural administration (nine grants). This brings the cumulative number of Contemporary Society grants to 109, with a total value of over \$1.9 million and covering 32 of Russia's 89 regions.

Security Programs

U.S. Department of Defense (DoD) – Cooperative Threat Reduction (CTR) Program: In June 1999, the U.S. and Russian Governments signed a protocol extending the CTR umbrella agreement, including its original liability protections, tax and customs exemptions, and audit and examination provisions, for another seven years. Despite problems in other areas of U.S.-Russian relations, cooperation on CTR programs continued without disruptions throughout FY 1999. Some \$383 million of the \$440 million appropriated for CTR in FY 1999 was earmarked for Russia. From FY 1992 to FY 1999, DoD notified to the U.S. Congress over \$1.6 billion in CTR assistance to Russia, of which over \$1.2 billion had been obligated and over \$790 million disbursed as of the end of FY 1999. To help Russia reduce its force structure to START II or START III levels, DoD and the Russian Ministries of Defense (MoD) and Economy (MinEcon) agreed in December 1997 on new CTR projects to support the required missile systems dismantlement and strategic submarine elimination, and to enhance the security of Russia's nuclear weapons and fissile material. Several of these projects continued throughout FY 1999. Projects were also initiated to help Russia process and package fissile material in the post-dismantlement stage and to prevent the proliferation of biological weapons expertise and technology.

U.S. Department of Energy (DOE) – Nuclear Cities Initiative (NCI): DOE initiated NCI in FY 1998-99 to help the ten closed cities that make up Russia's nuclear complex to provide employment alternatives to scientists and engineers as Russia downsizes its nuclear complex. DOE's initial NCI efforts focused on Sarov, Snezhinsk and Zheleznogorsk, providing \$12.5 million in FY 1999 to support projects such as an open computing center at Sarov, international development centers at all three cities, a nonproliferation center at Snezhinsk, a pharmaceutical packaging project at Snezhinsk, and laparoscopy and tele-medicine projects at Sarov.

DOE Initiatives for Proliferation Prevention (IPP): In FY 1999, DOE's IPP Program continued to redirect former weapons-of-mass-destruction (WMD) scientists in Russia to peaceful research and development projects with commercial

potential. DOE provided \$22.5 million for the IPP program and directed that \$5 million in projects be targeted at the three NCI focus cities. In FY 1999, IPP began implementing a number of recommendations made by the U.S. General Accounting Office (GAO), increasing the program's commercial emphasis and increasing the proportion of project payments that go to NIS scientists. Additionally, in order to ensure that salary payments to Russian scientists are not subject to taxes, DOE contracted with the U.S. Civilian Research and Development Foundation (CRDF) to process these payments.

DOE Materials Protection Control and Accounting (MPC&A): During FY 1999, DOE's MPC&A Program reorganized its activities, consolidating material into fewer buildings, converting excess highly enriched uranium (HEU) into low-enriched uranium (LEU) and increasing security and accountability measures. Two major projects for down-blending HEU into LEU were launched.

DOE Joint Plutonium Disposition Program: Under the Joint Plutonium Disposition Program, DOE is supporting collaborative work on the conversion of surplus weapons-usable plutonium metal to oxide suitable for use as MOX fuel. DOE provides funding to support the Russian design and construction of demonstration and industrial-scale conversion facilities, with the U.S. lead being taken by the Los Alamos National Laboratory. Roughly \$2 million in contracts were placed with Russian research and engineering institutes under this program in FY 1999.

DOE Nuclear Export Control Programs: In FY 1999, DOE conducted a variety of nuclear export control activities in Russia, including joint studies, workshops, training programs, sessions of the U.S.-Russia Joint Commission's Subgroup on Export Control, equipment evaluations and site surveys. In addition, DOE funded Second Line of Defense training and equipping initiatives to strengthen Russia's ability to detect nuclear smuggling at key transit points in Russia and along its southern borders.

U.S. Department of State – Export Control Programs: Through the U.S. Departments of Commerce and Energy, the U.S. Customs Service and other agencies, the U.S. Government continued to conduct joint activities with Russian organizations responsible for export control regulations, internal compliance and enforcement.

U.S. Department of State – Science Collaboration/ BW Redirection: In FY 1999, the U.S. Government actively supported the redirection of former WMD scientists through funding for International Science and Technology Center (ISTC) and Civilian Research and Development Foundation (CRDF) projects. Programs were also initiated by the U.S. Departments of Agriculture (USDA) and Health and Human Services (HHS) to support collaborative research with former Soviet biological weapons (BW) scientists in the areas of agriculture and public health.

International Military Education and Training (IMET) and Foreign Military Financing (FMF): In FY 1999, DoD expended \$303,000 to fund the participation of 39 Russians in IMET training programs. The IMET Program for Russia operated at a fraction of its original allocation of \$920,000 because the Russian Ministry of Defense (MoD) suspended its participation in IMET in March 1999 in reaction to NATO operations in the former Yugoslavia. As a result of these tensions, the Russian MoD also suspended its participation in the Foreign Military Sales (FMS) Program, withdrawing letters of request (LORs) that it had been submitted to the Security Assistance Office at the U.S. Embassy in Moscow. These LORs would have covered the partial use of \$4.5 million in Warsaw Initiative FMF funds allocated to Russia in FY 1997-98. The Department of State reallocated to other countries \$1.5 million in FY 1999 FMF funds originally identified for Russia. In late 1999, the MoD reinitiated its participation in both the IMET and FMF Programs.

Other Security Programs: In FY 1999, the U.S. and Russian Governments also continued to cooperate on a number of other security programs. DoD and the U.S. Environmental Protection Agency (EPA) continued work on the Arctic Military Environmental Cooperation (AMEC) Program with Russia and Norway.

U.S.-Russia Joint Commission on POW/MIAs: Through the U.S.-Russia Joint Commission on POW/MIAs, DoD's Moscow-based Defense POW/Missing Personnel Affairs Office continued to support the Russian side of the Commission in its efforts to account for Soviet and Russian citizens missing during and after World War II. This includes trying to account for Soviet military and civilian citizens who were missing in performance of their official duties abroad, in incidents at sea, in submarines, in the air, and in various local wars, including Afghanistan and Chechnya. DoD provided material assistance in the form of blood test kits and consultations by U.S. forensic specialists on DNA identification techniques, as well as more traditional means of identifying soldiers' remains (used particularly to identify remains from the Northern Caucasus), in the Russian MoD's 124th Central Medical Laboratory for Identification Investigations in Rostov-on-Don.

Energy and Environmental Programs

USAID Energy-Sector Reform Programs: In FY 1999, the previous year's joint DOE/USAID report on restructuring of Russia's electricity sector served as the strategic plan for U.S. Government-funded efforts to promote reform in that sector. USAID funded partnerships between the U.S. Energy Association (USEA), NovosibirskEnergo and IrkutskEnergo, the goal of which is to rationalize the two Russian utilities' pricing policies so that they can become self-sufficient. USAID is currently phasing out its energy-sector programs in Russia, with the exception of projects to promote energy efficiency. Focused in the Russian Far East, these energy efficiency projects work primarily on identifying efficiency improvements that municipal governments can make in district heating systems.

U.S. Nuclear Regulatory Commission (NRC): Working with GosAtomNadzor, Russia's federal nuclear and radiation safety authority, the NRC continued to focus on increasing that agency's capacity and stature, in order to help ensure the operational safety of Russia's nuclear power reactors. (Please see the NRC section in Part III of this report.)

USAID Environmental Programs: USAID's Replication of Lessons Learned (ROLL) Project has provided over 150 grants to support Russian-to-Russian partnerships, 87 of which were provided in FY 1999. The size of the average grant was \$28,000 and the average cost-sharing from each Russian partner was 30 percent. Projects supported by ROLL included the development of regional forest codes in two regions, the introduction of eco-tourism programs in 13 nature reserves in the Russian Far East, the introduction of a new environmental health risk assessment methodology at the federal level, and the implementation of a comprehensive air, water, and soil assessment in Samara Oblast (Region). During FY 1999, USAID-supported eco-business activities in the Russian Far East and Siberia resulted in increased sales and profits for over 30 non-timber and secondary wood-processing companies, working in such areas as recycling of fish waste and mercury batteries, introduction of forest-based product lines (e.g., juices, frozen berries, syrups) for ten companies, and facilitation of market linkages between at least 15 Russian processors and foreign buyers of non-timber and timber forest products. USAID also provided emergency assistance to Khabarovsk Kray in response to catastrophic forest fires in the region that destroyed more than four million acres and threatened the health and economic livelihood of many indigenous populations. Food and medicines were provided to three villages, including hospitals and orphanages, and critical supplies, including fire-protective clothing, generators, fuel and spare parts were provided to local forestry departments. To improve the early detection of forest fires, radio communications equipment, including 437 radios, will be given to the Khabarovsk Kray Forestry Management Department in FY 2000.

Other Environmental Programs: In FY 1999, the **U.S. Fish and Wildlife Service (USFWS)** administered a small-grants program to benefit Russian parks and nature reserves, and to promote tiger and bear conservation activities. USFWS officials also cooperated with their Russian counterparts in the areas of salmonid and coregonid fish conservation; management of the shared U.S.-Russian polar bear population; studies of cetaceans and other marine mammals, and of the migratory birds, ducks and geese of Beringia; and other joint conservation-related research projects. The **National Oceanic and Atmospheric Administration (NOAA)** participated in joint studies of gray and bowhead whales in order to allocate appropriate hunting quotas for indigenous peoples and to support species protection. The **U.S. Environmental Protection Agency (EPA)** cosponsored the Second All-Russia Environmental Congress, which was held in Saratov in June. In addition, the **U.S. Geological Survey (USGS)** made a series of small grants to support Russian scientific institutions mapping geologic structures in North Asia and Siberia.

Social-Sector and Humanitarian Programs

U.S. Department of Agriculture (USDA) – Food Assistance: In FY 1999, USDA provided Russia with 3.7 million metric tons of food assistance, valued at \$1.16 billion. The program consisted of approximately 1.7 million metric tons of wheat and wheat flour donated under the P.L. 416 Program, 1.9 million tons of commodities provided under the P.L. 480, Title I Concessional Sales and Food for Progress Programs, and 100,000 metric tons of various commodities donated as humanitarian assistance and delivered through five U.S. private voluntary organizations (PVOs). Most of the proceeds of the monetized components of this assistance were directed towards the Russian Government's Pension Fund, providing support for elderly pensioners. Proceeds from the seed sales under the Food for Progress Grants Program were used to support credit cooperatives and seed research.

USAID Assistance to Russian Orphans (ARO): In FY 1999, USAID launched a new project to provide assistance to Russian orphans, many of whom are still automatically put into state institutions soon after birth and are cared for outside of families and communities. In many cases, reintroduction into society never occurs. The ARO Project will also support activities to prevent child abandonment, promote the development of community services, and encourage organizations in-

volved with orphan issues to share ideas with each other. Two U.S. NGOs—Holt International Children's Services and Mercy Corps International—will work with leading Russian NGOs in Novgorod, Samara and the Russian Far East, including Magadan, to implement this \$1.5 million project.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided over \$602 million in humanitarian assistance to Russia. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$1.34 million in transportation and grant funds to deliver \$19.92 million in targeted humanitarian assistance to the people of Russia. Much of this assistance was in the form of donated commodities distributed by small and medium-sized U.S. PVOs. However, the majority of this assistance was in the form of high-value pharmaceuticals provided through large PVOs like Project Hope. During FY 1999, the Department of State funded six humanitarian airlifts and 163 surface shipments to Russia.

USAID Health-Care Reform Programs: In FY 1999, USAID designed and began to implement multi-year strategies aimed at specific health problems in Russia, including women's and infant health, AIDS/HIV prevention, and tuberculosis control. USAID also continued to support U.S.-Russian primary health-care partnerships and facilitated a dialogue at the national level on the quality of health care in Russia.

- **Women's Reproductive Health Project:** This project came to a successful close in FY 1999, with over four million additional Russian women enjoying access to modern family-planning information and services. The Russian Government estimates that abortion rates have fallen 23 percent throughout Russia in the last five years, largely as a result of U.S.-Russian cooperation on family planning. Although there have been many program successes, maternal and infant mortality rates continue to range from two to ten times higher in Russia than in other industrialized countries. In June 1999, USAID completed a women's and infant health strategy that incorporates training in a range of prenatal, maternity and postnatal care and treatment issues, based on the most modern information available in the area of women's health. The strategy also incorporates increased counseling on family planning, sexually transmitted diseases and family violence. Field-based programs were initiated in Novgorod and Perm.
- **Infectious Disease Programs:** In FY 1999, USAID began implementing AIDS/HIV-prevention activities in Moscow and Saratov. AIDS/HIV- and sexually transmitted disease (STD)-prevention leaflets, brochures and posters were placed in clinics and youth centers, and a series of youth events were organized to promote condom use and increase AIDS/HIV awareness among young people. USAID also established two HIV/AIDS-prevention partnerships: one between the Moscow-based NGO "No to Alcoholism and Drugs" (NAN) and the Lower East Side Harm Reduction Center of New York City, and one between three organizations in Saratov—the Regional AIDS Prevention Center, the NGO "Harmony," and the Center for International Understanding—and three Washington, D.C.-based organizations—Helping Individual Prostitutes Survive, Metro Teen AIDS, and the Whitman-Walker Clinic. Both partnerships developed prevention strategies for high-risk groups, strengthening the capacity of the Russian partners to design and implement HIV-prevention programs. USAID's new program to fight tuberculosis (TB) identified three sites for pilot TB projects: Ivanovo, Orel and Vladimir. Program efforts will focus on upgrading laboratory capacity. Russia- and U.S.-based training was provided for Russian TB professionals from Ivanovo, Vladimir, Orel and Novgorod. In October 1999, deputy governors and health administration leaders from Ivanovo, Orel and Novgorod participated in a U.S. observation tour to increase political will and understanding of the TB project.
- **Community-Based Health Care Project:** In October 1998, the USAID-funded American International Health Alliance (AIHA) initiated a new, broad-based series of U.S.-Russian partnerships focusing on community-based primary health care. By working with municipal governments, social services, schools, universities, and public organizations, the program began fostering more effective and efficient delivery of health services in communities. In FY 1999, 15 partnerships initiated under USAID's original Hospital Partnership Program implemented activities in hospital management and administration, nursing, women's health, neonatal resuscitation, emergency medical care, maternal and child health, hospital infection control and TB. As part of a community-based health initiative, USAID established four new primary health-care partnerships in Khabarovsk, Kurgan, Samara and Sarov.

U.S. Department of Energy (DOE) – Radiation Health-Effect Studies: In FY 1999, DOE's Environmental Safety and Health Office funded 12 joint studies on radiation health effects, focusing on the population and workers chronically exposed to radiation emitted from Mayak, the Russian nuclear weapons production plant in the Southern Ural Mountains. The long-term study, which costs \$3 million per year, was initiated under a joint agreement signed in 1994.

Preview of FY 2000 Programs

In FY 2000, U.S. Government assistance to Russia will strengthen its regional and grassroots emphases, supporting the development of small business and civil society, as well as health-care reform and environmental activities. USAID will provide technical assistance to Russia's electoral commissions to help ensure that the presidential elections scheduled for March 2000 are free and fair. USAID-funded initiatives will also reach out to newly elected legislators in the State Duma (parliament) and the regional legislatures, as well as to municipal officials. The U.S. Government will continue to target funds away from the Russian federal government and Moscow, towards Russia's reform-minded regions. Exchange programs will work to strengthen the valuable partnerships between U.S. and Russian communities and organizations in all sectors and will serve as vehicles to bring more Russians to the West to observe democracy and free market economics first-hand. In Moscow, U.S. Government-funded programs will also continue to address significant obstacles to reform, including corruption, organized crime, and the overall lack of an effective and comprehensive legal system that can ensure the rule of law. USAID will continue to work with other donors to promote banking and tax reform.

Under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will significantly increase assistance to address the increased threat of weapons-of-mass-destruction (WMD) proliferation in the wake of the Russian financial crisis. Cooperative Threat Reduction (CTR) activities and nuclear materials security programs will continue to be the highest priority. In addition, expanded scientific collaboration programs will provide alternative employment opportunities to prevent the proliferation of weapons expertise from the tens of thousands of former Soviet weapons scientists in Russia who are in demand by rogue states and terrorists. An increased focus will also be placed on redirecting former Soviet biological weapons (BW) scientists and technical experts to peaceful pursuits, as well as on enhancing Russia's export controls and border security by providing additional equipment and training.

TAJIKISTAN

Political Overview

In FY 1999, Tajikistan continued the national reconciliation process that began with the June 1997 signing of a general peace accord, ending years of civil conflict. Implementation of the peace accord, while falling further behind schedule, nevertheless continued in FY 1999. The demobilization and integration of former United Tajik Opposition (UTO) fighters proceeded from its first phase—relocation to designated assembly areas and registration—to its second—suitability assessment for integration into the national armed forces. During FY 1999, the Government of Tajikistan and the UTO overcame a serious impasse in the course of allocating one-third of high-level government positions to UTO candidates, as called for by the peace accord. This was done by creating a new "power ministry" and appointing as minister UTO commander Mirzo Ziyoev, who was supposed to take control of the Ministry of Defense, but was prevented from doing so because the incumbent, pro-government defense minister refused to step down. Problems arose with respect to several former UTO field commanders who no longer seemed to answer to the UTO leadership, much less to the Government of Tajikistan. These field commanders collaborated with the guerilla force of Uzbek Islamist militants who invaded Kyrgyzstan from the territory of Tajikistan in fall 1999, took hostages, and returned to Tajikistan. However, several field commanders from the government side posed an ongoing threat to law and order in the capital of Dushanbe as they maneuvered for greater power and territorial control over business and narcotics trafficking.

A September 1999 referendum on amendments to Tajikistan's constitution and a November 1999 presidential election, both of which were conditions of the peace accord, reflected serious weaknesses in Tajikistan's transition to democracy. President Rahmanov was re-elected, winning a reported 98 percent of the vote. Election observers reported numerous flaws in the conduct of both elections, including the violation of ballot secrecy, the compromised neutrality of polling place staff, and government monopolization of mass media. The actions of both the government and opposition discredited the results of the presidential election, with pro-government forces preventing opposition leaders from registering as candidates, and the opposition leaders calling for a boycott of the election in response. Parliamentary elections are scheduled for early 2000, after the current parliament approves an election law. It is unclear if the parliamentary elections will meet the minimum conditions of freeness and fairness necessary to merit the presence of international observers from the United Nations and the Organization for Security and Cooperation in Europe (OSCE).

Economic Overview

Tajikistan's economy remained depressed in 1999, as the problems of economic transition took a back seat to the political and security problems facing the country's decision-makers. Government revenues remained dependent on the cotton and aluminum sectors, both of which functioned below capacity in FY 1999. Small-scale privatization was largely completed, but medium- and large-scale privatization remained stalled. Government statistics indicated a 2.1-percent rise in GDP during the first seven months of 1999, but also indicated that nearly one-third of the population was either unemployed or under-employed.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$41.64 million in assistance to Tajikistan, including \$12.97 million in FREEDOM Support Act funds, \$25.07 million in U.S. Department of Agriculture (USDA) funds, \$120,000 in other U.S. Government funds, and \$3.48 million in U.S. Defense Department excess and privately donated humanitarian commodities. U.S. Government-funded assistance to Tajikistan supported the peace process, focusing on reintegrating refugees and demobilized combatants, increasing employment and income through projects to reform the agricultural sector and provide micro-credit, providing humanitarian assistance to vulnerable groups, and promoting privatization, commercial law reform, private enterprise, and the development of non-governmental organizations (NGOs). In addition, regional environmental and energy programs supported Tajikistan's participation in water and energy management programs with neighboring Central Asian countries.

The U.S. Embassy in Dushanbe suspended its normal operations in October 1998, and they remained suspended throughout FY 1999, with the Embassy's American staff resident in Almaty, Kazakhstan, and making periodic trips to Tajikistan when security conditions permitted. Although this made it more difficult for the U.S. Government to implement and coordinate assistance programs on-site in Tajikistan, grantee organizations implementing U.S. Government-funded assistance programs remained in-country and continued their work at regular levels.

Training and Exchange Programs

Since FY 1993, U.S. Government-funded exchange programs have brought almost 800 Tajik citizens to the United States for short-term professional or long-term academic training, including some 130 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training: In FY 1999, USAID training programs continued to provide key Tajik officials and policy-makers with an opportunity to develop their skills and observe other countries' political and economic systems, helping them contribute to Tajikistan's progress in a number of sectors. Over 400 Tajik citizens participated in USAID training programs in FY 1999: over 60 of them in U.S.-based programs, some 170 in third-country programs and 180 in in-country programs. Of this total, over 230 received training in the area of democratic reform, over 110 in economic restructuring, and some 50 in social stabilization. USAID provided targeted training to government officials, members of the United Tajik Opposition (UTO), and others in key conflict-resolution posts. For example, Tajik representatives participated in a very successful USAID-funded training program on reconciliation at the University of Nebraska. With the help of USAID-funded training in the development of civil codes, Tajikistan's parliament accepted the first part of a new civil code, and the second part is in the process of adoption. In addition, two new training courses prepared government officials for conversion to International Accounting Standards (IAS), a process under way throughout the country. A tuberculosis seminar held in neighboring Kyrgyzstan resulted in the implementation of a national tuberculosis screening initiative in Tajikistan. Tajik alumni of USAID training programs now form a cadre of reform-minded officials who are taking the lead in crafting long-term stabilization and structural adjustment programs.

U.S. Information Agency (USIA) Exchanges: In FY 1999, over 60 Tajiks traveled to the United States under USIA academic and professional exchange programs, including four graduate students, four undergraduates, two scholars, 15 secondary school students, and 27 professionals. Among these were a group of Tajik journalists who participated in a USIA International Visitors (IV) program focusing on U.S. press coverage of political campaigns, and had an opportunity to discuss press-government relations with their U.S. counterparts. Upon returning to Tajikistan, the participants immediately put their experience to use in the context of their country's elections. Other Tajik IV participants included a delegation of women NGO leaders who visited the United States on a program on human-rights education for women and a group of politicians who participated in a program on political party organization.

USIA University Partnerships: In FY 1999, USIA supported a partnership between the University of Nebraska at Lincoln and the Technological University of Tajikistan, who have undertaken a three-year program of cooperation in the areas of food science and small business. USIA also supported an active partnership between the University of Nebraska and Khojand State University focusing on establishing degree and extension programs in business education.

Other U.S. Government-Funded Training Programs: Tajiks also participated in training on combating child exploitation and violence against women, sponsored by the Federal Bureau of Investigation (FBI); export control training sponsored by the U.S. Department of Commerce; and training on post-blast investigative techniques, sponsored by the Bureau of Alcohol, Tobacco and Firearms (ATF). USDA's Cochran Fellowship Program sent three Tajik agriculturists to the United States to gain first-hand experience in modern farming techniques. Programs sponsored by the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) at the International Law Enforcement Academy in Budapest gave Tajik participants an opportunity to learn about law enforcement in a democratic society and to establish contacts with counterparts from other NIS countries.

Trade and Investment Programs

In FY 1999, the U.S. Government promoted trade and investment in Tajikistan through a number of programs. The Central Asian - American Enterprise Fund (CAAEF) made loans to private enterprises totaling over \$1.1 million, and with USDA and USAID support, Mercy Corps International (MCI) continued to implement a micro-credit program in Tajikistan. In addition, the U.S. Government began providing assistance to Tajikistan in the area of commercial law reform, supporting training programs on legislative drafting. The security situation in the country, however, hindered the ability of USAID-funded advisors to fully implement this assistance.

Democracy Programs

USAID Democracy Programs: In FY 1999, USAID sought to promote citizen participation in political and economic decision-making in Tajikistan, not only as a foundation for democracy-building, but also as a cornerstone for efforts to build peace in the aftermath of the country's five-year-long civil war. In FY 1999, USAID-funded democracy programs focused on election-related activities such as voter and civic education, reform of electoral legislation, and the development of a voter registration system, each of which contributed directly to the peace process as well. USAID provided support to the Commission for National Reconciliation (CNR) and the Central Election Commission (CEC), familiarizing them with international standards for elections and promoting the development of electoral legislation in accordance with these standards. For the past two years, USAID's support for civil-society development has been entirely focused on Tajik NGOs that are working to promote peace and reconciliation. USAID assistance prompted these NGOs to become more involved in mediation efforts, utilize community development approaches in areas most affected by the inflow of returnees, and foster a dialogue with government officials on addressing community concerns. In cooperation with the International Center for Not-for-Profit Law (ICNL) and local NGOs, USAID facilitated the drafting and adoption of a revised law on public associations, as well as amendments to the Civil Code and Tax Code. In addition, a quasi-governmental working group was formed to address changes in the general NGO law, a draft of which was completed in August 1999. A new law on non-commercial organizations is expected to be adopted in January 2000. Meanwhile, USAID media assistance programs helped increase citizens' access to information in general—and specifically information about the peace process—by supporting the emergence of additional independent television and radio stations throughout the country.

Energy and Environmental Programs

USAID Resource Management Programs: In the area of regional water management, USAID helped Tajik Government officials improve the trans-border management of shared water systems. With USAID assistance, the Government of Tajikistan developed a water-use optimization model for the Syr Darya River, adopted a uniform system of calculating operations and maintenance costs for shared basin facilities, and fully implemented the 1998 water and energy exchange agreement with the governments of Kazakhstan and Uzbekistan. The Government of Tajikistan also participated in an energy- and water-use roundtable group that met regularly to resolve regional issues on management of water and energy resources.

Social-Sector and Humanitarian Programs

Support for the Peace Process: In FY 1999, the U.S. Government supported Tajikistan's peace process by providing critically needed funding to United Nations agencies and NGOs for peace- and confidence-building measures. With USAID support, the United Nations Development Program (UNDP) and United Nations Office of Project Services (UNOPS) im-

plemented job-creation programs and provided employment opportunities for ex-combatants in the Karategin Valley, one of the country's former opposition-held areas. Without these projects, ex-combatants would have had greater difficulty reintegrating into society. USAID also provided a grant to Counterpart Consortium to promote peace-building activities in Tajikistan's schools by teaching conflict resolution methods in the classroom. USAID provided a grant to the Aga Khan Foundation (AKF) to manage an agricultural program designed to modernize and update farming methods in the Karategin Valley, so that former combatants can improve their farming practices and increase their income. AKF also worked in mountainous areas damaged by fighting, providing new private farmers with supplies of seed and fertilizer, as well as technical advice, to help them expand wheat and potato production in difficult growing conditions. AKF's efforts achieved remarkable results, with wheat and potato yields increasing three- to fourfold. In addition, the USAID-supported United Methodist Committee on Relief (UMCOR) began implementing youth programs for victims of the conflict, providing a secure environment for education and reconciliation. All these programs are designed to restore and rebuild communities through reconciliation and to promote the expansion of employment and income.

U.S. Department of Agriculture (USDA) – Food Assistance: In FY 1999, USDA allocated \$25.07 million for the provision of approximately 36,470 metric tons (MT) of food commodities to Tajikistan, including 27,790 MT under its Section 416(b) Program. Of this amount, 5,090 MT was directly distributed by the U.S. private voluntary organization (PVO) Save the Children. In addition, Mercy Corps International (MCI) distributed 4,700 MT of wheat flour and monetized 8,000 MT to establish a farm credit program, the Aga Khan Foundation (AKF) distributed 4,000 MT of wheat flour and CARE distributed 5,500 MT of wheat flour. The United Nations World Food Program (WFP) distributed 500 MT of dry milk provided under the Section 416(b) Program. In addition, U.S. PVOs operating in Tajikistan managed the distribution of 8,680 MT of commodities under USDA's Food for Progress Program. MCI distributed 1,200 MT of rice, 1,400 MT of vegetable oil, and 200 MT of yellow peas to vulnerable groups and participants in food-for-work programs. MCI supported these programs by monetizing 9,000 MT of vegetable oil and wheat flour. AKF also directly distributed some 2,900 MT of corn-soy blend (CSB), vegetable oil, wheat flour, and dry whole milk. Rounding out the direct distribution efforts were Save the Children, which distributed 2,420 MT of commodities (550 MT of corn-soya milk, 1,340 MT of rice and 530 MT of vegetable oil) and CARE, which distributed 560 MT of vegetable oil.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided almost \$33 million in humanitarian assistance to Tajikistan. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$180,000 in transportation and grant funds to deliver \$3.48 million in targeted U.S. Defense Department excess property and privately donated humanitarian commodities to the people of Tajikistan. The majority of this assistance consisted of high-value pharmaceuticals delivered through the U.S. PVO Project Hope.

Security Programs

Tajikistan is the only NIS country that is not a member of the Partnership for Peace and is therefore not eligible for support under the Warsaw Initiative. Tajikistan has committed to cooperating with the U.S. on countering the proliferation of weapons of mass destruction and receives modest assistance primarily for strengthening its legal structure of export controls.

In FY 1999, the U.S. Defense Department (DoD) Military Contract Program funded the participation of 10 Tajik students in courses at the Marshall Center for Security Studies in Germany. In addition, DoD funded the participation of 20 Tajiks in Marshall Center conferences, as well as a seminar in Tajikistan on cooperation and competition among political parties in a democracy.

Cross-Sectoral Programs

In FY 1999, the Eurasia Foundation continued to operate a small grants program in Tajikistan, awarding 15 grants totaling \$420,000 to Tajik NGOs in the areas of private-sector development and public administration. (Please see Eurasia Foundation section in Part III of this report.)

Preview of FY 2000 Programs

Although normal operations of the U.S. Embassy in Dushanbe remain suspended, the U.S. Government is committed to maintaining good relations with Tajikistan and to supporting the country's transition to democracy and a market-based economy. In FY 2000, the U.S. Government will continue to provide assistance in the areas of democracy and governance, economic development, energy and environment, health, and food aid. The emphasis of assistance will shift from emer-

gency assistance to more sector-specific, long-term development activities. USAID will support the creation of a more robust private sector and will seek opportunities to expand business education and training. With parliamentary elections scheduled for February and March 2000, democracy assistance will focus on election observer training and political party development. In addition, training and exchange programs will continue to expose Tajiks to participatory democracy and human rights issues. The U.S. Government will continue to support the United Nations Mission on Tajikistan (UNMOT), other United Nations agencies, and NGOs working toward peace accord implementation and national reconciliation. Also in FY 2000, under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the Departments of Defense, Energy and State, the U.S. Government will provide limited support in the form of training and seminars to enhance Tajikistan's export controls and border security.

TURKMENISTAN

Political and Economic Overview

In FY 1999, President Niyazov tightened his control over political, social and economic life in Turkmenistan, and the country's economy continued along a downward path amid signs of increasing instability in the Caucasus and Central Asia. The December 1999 elections to the Mejlis (parliament) belied President's Niyazov's promise to hold elections on a "broad democratic basis." Only government-selected candidates were allowed to run, and the government-controlled media did not carry any independent discussion of critical issues. On December 28, 1999, the newly elected Mejlis extend Niyazov's term of office indefinitely, effectively declaring him president for life. The country's civil code, which was adopted in 1998 and contains guarantees for citizens' rights, was frequently disregarded in favor of more restrictive legislation. Meanwhile, judicial branch officials explained that the civil code was being "phased-in gradually."

Turkmenistan's slow movement in the area of economic reform grew even slower in FY 1999, especially with respect to reforms that would potentially weaken the government's control over the economy. The one area in which there was progress was budget reform, as dwindling state revenues clearly heightened the government's appreciation for improved fiscal management and budgetary procedures. However, generally speaking, most senior-level officials continued not to appreciate the need for true reform. Meanwhile, Turkmenistan's financial picture continued to worsen, as export revenues remained depressed in the wake of the government's March 1997 decision to suspend gas exports through the Russian pipeline system. Nevertheless, oil production and export increased in FY 1999, and the rise in global oil prices provided some increased foreign-exchange earnings. As part of its steady effort to demonstrate the benefits of operating in Turkmenistan to international investors and companies, the Government of Turkmenistan adopted a regulatory framework designed to meet international standards for environment, safety and worker protection in the oil and gas sector. Although the prospect of a trans-Caspian pipeline enabling the export of Turkmen gas to Turkey offers promise for the future, throughout FY 1999, Turkmenistan's near-term outlook continued not to offer any prospects for growth.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$23.20 million in assistance to Turkmenistan, including \$11.29 million in FREEDOM Support Act funds, \$4.36 million in other U.S. Government funds, and \$7.55 million in U.S. Defense Department excess and privately donated humanitarian commodities. In FY 1999, USAID obligated \$6.9 million in FREEDOM Support Act funds for development assistance to Turkmenistan, of which 43 percent was for economic restructuring activities, 24 percent for health-care reform activities, 18 percent for training activities in all sectors, and 12 percent for activities to support democratic reform. In addition, Turkmenistan also benefited from several USAID programs for the Central Asian region that focused on the oil and gas, water and energy sectors. The mixed results of U.S. Government-funded assistance to Turkmenistan in FY 1999 reflected the refusal of President Niyazov to permit broad-based economic and political reform.

Training, Exchange and Educational Reform Programs

Since FY 1993, U.S. Government-funded exchange programs have brought some 875 Turkmen citizens to the United States for short-term professional or long-term academic training, including some 120 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training: In FY 1999, USAID's Global Training for Development (GTD) Project conducted a total of 26 training programs for Turkmen participants—three programs in the United States, 10 in third countries and 12 in Turkmenistan.

USAID trained some 330 participants in FY 1999: some 25 of them in the United States, 30 in third countries and over 270 in Turkmenistan. USAID-funded regional training programs continued to expose Turkmen participants to neighboring countries' approaches to solving issues of mutual interest. However, new exit-visa requirements imposed by the Turkmen Government impeded the implementation of third-country and U.S.-based training programs. For this reason, in-country training programs will account for the majority of GTD's training portfolio in the future. Already in FY 1999, the GTD Project worked closely with local technical assistance partners to provide cost-effective in-country training to a wider local audience.

U.S. Information Agency (USIA) Exchanges: In FY 1999, over 70 Turkmen citizens participated in USIA exchange programs, approximately 50 in academic exchanges and 20 in professional exchanges. The secondary-school exchanges implemented under the Future Leaders Exchange (FLEX) Program continued to be one of the most popular U.S. Government-funded assistance programs in Turkmenistan, with thousands of Turkmen high school students applying for only 30 slots. Some 15 Turkmen students participated in USIA undergraduate and graduate exchange programs in FY 1999, up from seven participants in FY 1998. In addition, 15 Turkmen students traveled to the United States on USIA International Visitor (IV) and FREEDOM Support Grant programs addressing priority topics such as women's rights, continuing education, food safety and social reform. Turkmen participants also benefited from two locally offered USIA programs in English language instruction and American studies.

USIA University Partnership Program: In FY 1999, USIA awarded a university partnership grant to Texas A&M University to help Magtumulgi State University develop a business education program.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, USDA's Cochran Program continued to support agricultural reform in Turkmenistan, organizing short-term exchange programs in seed policy, agribusiness management, farm management, agriculture finance and irrigation technology for a total of 13 Turkmen participants.

Private-Sector Support Programs

In FY 1999, the U.S. Government sought to expand private-sector operations and entrepreneurial skills in Turkmenistan. While the activities noted above aimed to create a better environment for business and entrepreneurial growth by working with the Turkmen Government, other projects worked directly with the Turkmen private sector in an effort to foster its growth and development.

Central Asian-American Enterprise Fund (CAAEF): In FY 1999, the CAAEF provided financing to private Turkmen businesses, as well as limited training and technical assistance. The CAAEF is currently implementing its single largest investment in Turkmenistan, a cotton-spinning factory that will employ over 250 people, of whom 70 percent will be women. As of the end of FY 1999, the CAAEF's loan program had disbursed over \$4.7 million to a total of 67 borrowers in Turkmenistan. The CAAEF continued to work with its local partner banks to find and develop borrowers and had a pipeline of potential loans worth more than \$3 million. Currency conversion continued to represent the single largest risk factor—one that required close monitoring. In addition, overly complex regulatory requirements placed a large burden on entrepreneurs and restricted development of the country's private sector.

International Executive Service Corps (IESC): In FY 1999, IESC's office in Turkmenistan implemented 12 private-sector projects in the areas of publishing, agricultural development, retail sales, plastic production, and banking. Volunteer U.S. executives directly assisted small and medium-sized private businesses, increasing their understanding of a market-based economic system, and introducing them to basic management techniques and financial analysis skills. IESC's USAID-funded work with private entrepreneurs and commercial banks resulted in an upgrading of business standards in Turkmenistan, thus contributing to the development of private enterprise. IESC volunteers also taught at the Turkmen Institute of National Economy, helped the U.S. Embassy carry out an assessment of business constraints, and participated in seminars designed to improve accounting standards in several local banks. IESC is actively exploring small and medium-sized enterprise development in the Dashoguz Region. Five private companies working in printing and photo development, bakery products, and cotton spinning in Dashoguz will receive IESC's assistance in FY 2000.

USAID Farmer-to-Farmer (FTF) Program: In FY 1999, USAID-funded Winrock International fielded 19 U.S. volunteers on 12 FTF assignments involving more than 1,000 Turkmen farmers and entrepreneurs. In cooperation with USAID's Global Training for Development (GTD) Project, the FTF Program published a field guide and trained 700 farmers in Dashoguz in the identification of harmful insects so that they can better use the biologically based control system in place

there, which is cost-effective and safe for the environment. Winrock volunteers also helped establish three associations of private farmers that will function as Western-style cooperatives. A number of other FTF assignments focused on on-farm production and agribusiness development. The FTF Program also continued to focus on the development of more efficient water delivery systems, and in FY 2000, it will promote the development of water-user associations in conjunction with improved water-delivery systems.

Economic Restructuring Programs

In FY 1999, a central objective of U.S. Government-funded assistance to Turkmenistan was to encourage the government to restructure and redefine its role and operations in the national economy. Reducing the direct control of government in business and the marketplace is critical to private-sector growth and international trade and investment. To this end, USAID financed technical assistance in creating sound fiscal policies and economic management practices, as well as in improving commercial and business laws. USIA contributed to this objective by bringing U.S. experts to Turkmenistan through its Speakers Program and by bringing Turkmen entrepreneurs and policy-makers to the United States under its International Visitors (IV) Program. One of USIA's most successful IV programs introduced Turkmen women holding senior positions in regional and local government to the role of women in a market economy.

USAID Budget Reform Programs: As described above, the Government of Turkmenistan demonstrated some degree of commitment to budget reform in FY 1999. With the help of a USAID-funded resident advisor, the Ministry of Economy and Finance adopted internationally recognized financial and accounting classifications and coding, and upgraded the analytical and computer capabilities of its budget department. The number of agency budgets now included in the budget document submitted to the national parliament has substantially increased, and the analytical documentation supporting the proposed FY 2000 budget document is expected to expand substantially in quantity and quality. Much remains to be done, however, before Turkmenistan actually has a transparent and rational budget system that allocates resources across all government operations.

USAID Support for Privatization: In FY 1999, USAID provided technical support to the privatization units of the Ministry of Economy and Finance, the State Agency for Foreign Investment (SAFI) and the Ministry of Agriculture. USAID provided substantial advice and training on privatization strategies and methods, and organized a national conference to review the constraints to the privatization program and to build greater commitment to privatization among key senior-level Turkmen Government officials. In addition, a USIA visiting professor discussed the need for economic reform with senior Turkmen Government officials. Unfortunately, these efforts did not result in any perceptible change in the pace of privatization. Since the only enterprises being privatized in Turkmenistan were small enterprises whose privatization was clearly within the capability of the country's privatization officials, USAID suspended its technical support for privatization at the end of FY 1999.

USAID Trade and Investment Programs: Progress in reforming Turkmenistan's legal and policy framework for trade continued to be incremental in FY 1999. Most of the trade and investment reform issues raised by USAID-funded advisors were addressed in Turkmenistan's new civil code, which entered into force on March 1, 1999, and is providing a framework upon which Turkmenistan is building a system of commercial law. USAID facilitated the development of laws that are fundamental to private-sector development, including laws on customs and tariffs, business organizations, company registration, and intellectual property rights. In addition, USAID's Trade and Investment Project worked with Turkmen Government counterparts and the private sector to identify and reduce administrative barriers to trade, enact greater protection and clearer remedies for foreign investors, simplify and make more transparent the process of business registration, and reduce the degree of state regulation in general.

Democracy Programs

USAID Democracy Programs: In FY 1999, the objectives of USAID's modest democracy programs in Turkmenistan were to encourage citizen participation, foster democratic concepts, and facilitate access to information. USAID pursued these objectives by supporting NGO efforts in the areas of civic and legal education and community development/self-help activities.

- **Counterpart Consortium NGO Support Initiative for Central Asia:** In FY 1999, the Government of Turkmenistan accredited and registered the Counterpart Consortium, the first international organization to gain this status in Turkmenistan, reflecting the government's reluctant consent for continued civil society development. Counterpart revised its assistance strategy to take into account the lack of an enabling environment and the Turkmen Government's suspi-

cious attitude towards NGOs. Counterpart's programs targeted the following areas: (1) regional outreach, including a program that delivers clean water to rural communities in Dashoguz Province that are served by a USAID-built reverse osmosis water plant; (2) clarifying the role of NGOs in Turkmenistan, in conjunction with the International Center for Not-For-Profit Law (ICNL); (3) promoting social partnership through activities designed to bring local government and NGOs together; (4) strengthening the international community's focus on and support to NGOs by hosting an NGO donor subgroup to encourage partnerships and channel international resources to appropriate NGOs; and (5) having foreign assistance providers play a lower-profile role in NGO development, thus helping the NGOs themselves take the lead in this process. Over 1,450 members of some 200 Turkmen NGOs and civic groups participated in Counterpart training programs in FY 1999. To follow up on the results of this training, Counterpart awarded 22 grants totaling \$122,000, eight of which were partnership grants and 14 of which were NGO support grants. This brought to 31 the number of grants awarded by Counterpart since it began operations in Turkmenistan. In addition, Counterpart organized over 18 roundtables in FY 1999, including a number of presentations at regional and district government offices designed to broaden their dialogue with NGOs. Counterpart's community-based activities promoted citizen participation in local decision-making, an infrequent occurrence in highly centralized Turkmenistan. To increase skill-building opportunities for Turkmen NGOs, Counterpart worked closely with other international organizations such as the Soros Foundation, United Nations, and British Know-How Fund to send over 80 Turkmen NGO representatives to international conferences on themes ranging from gender and development, to refugees and advocacy. Upon their return, the participants shared their new knowledge with their NGO colleagues at focus groups and roundtables hosted by Counterpart. Significantly, Counterpart's fundraising efforts on behalf of Turkmen NGOs led the Embassy of New Zealand to donate \$5,000 to support a water users' association in Dashoguz.

- **American Bar Association – Central and East European Law Initiative (ABA/CEELI):** In FY 1999, ABA/CEELI began a legal education and information program with Turkmen State University and the National Library.

U.S. Department of State – Anti-Crime Training and Technical Assistance (ACTTA) Program: In FY 1999, more than 100 Turkmen Government officials, ranging in rank from police investigators to the head of the anti-smuggling division of the State Customs Service, participated in ACTTA training programs, which were coordinated by the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) and took place in the United States, Turkmenistan and third countries. As Turkmenistan has become a popular transit country for drug traffickers, U.S. Government-funded training has increasingly focused on counter-narcotics. In addition, the U.S. Government provided assistance and training for police academy instructors, major criminal case investigators and other law enforcement officials.

Security Programs

In FY 1999, U.S. Government-funded limited counter-proliferation assistance to Turkmenistan focused on developing and enhancing the border-security and export-control capabilities of Turkmenistan and its Central Asian neighbors, with a focus on interdicting the smuggling of weapons of mass destruction (WMD). This is a particular concern in Turkmenistan, which lies along centuries old trade and smuggling routes running both north-south and east-west.

U.S. Department of Defense: In FY 1999, Turkmenistan's Ministry of Defense (MOD) maintained a consistent, but low-profile relationship with the U.S. Department of Defense (DoD), participating in the International Military Education and Training (IMET) Program, the Expanded IMET (E-IMET) Program, and the Foreign Military Financing (FMF) Program. Turkmenistan received \$251,000 in IMET funds and \$600,000 in FMF funds in FY 1999. The Turkmen Government plans to use FMF funds to support a demining initiative, airfield improvements at a facility near Ashgabat and the transfer of an excess U.S. Coast Guard 82-foot patrol boat to Turkmenistan in FY 2000, which the U.S. Government has allocated to Turkmenistan's maritime border guards in order to improve their capabilities. In addition, the U.S. Government began providing counter-narcotics training to Turkmen border guards, and follow-on training visits are scheduled in FY 2000. In FY 1999, the Turkmen MOD sent its first high-level military delegation to U.S. Central Command (CENTCOM) in Tampa, Florida to develop a military contact plan. Contact events and joint training opportunities have been planned for FY 2000 in both the United States and Turkmenistan.

Energy and Environmental Programs

U.S. Government-funded energy and environmental programs in Turkmenistan are designed to help develop an effective policy framework for an environmentally sound, regionally efficient, and market-oriented energy sector and to reduce economic and political tensions generated by trans-border environmental issues. USAID's regional approach to these issues

has yielded solid results benefiting both Turkmenistan and the Central Asian region as a whole. Progress towards these objectives exceeded expectations in FY 1999.

USAID Energy-Sector Programs: In FY 1999, USAID technical assistance in the area of power pooling and international power contracting resulted in an agreement on parallel cooperation and frequency regulation of the five Central Asian countries' national power systems. USAID-funded advisors in Turkmenistan sought to create a regulatory environment that will facilitate the influx of much-needed foreign investment to develop a modern and transparent energy sector. They also helped prepare environmental rules and regulations on petroleum production and transportation in Turkmenistan. The formation of independent regulatory agencies for Turkmenistan's petroleum and energy sectors resulted in progress towards fair and transparent pricing schemes and improved payment enforcement, which in turn improved economic incentives for foreign and domestic investment in newer and cleaner technologies and practices.

Social-Sector and Humanitarian Assistance

In FY 1999, U.S. Government-funded social-sector programs in Turkmenistan focused on improving the country's health sector, specifically through health partnerships, reproductive health programs, and the surveillance and treatment of tuberculosis and other infectious diseases. U.S. Government-funded humanitarian assistance also supported these social-sector objectives, specifically targeting vulnerable groups such as the elderly, the disabled and disaster victims. Wherever possible, USAID activities sought to team Turkmen Government agencies with NGOs in the provision of social services.

USAID Health Partnerships: Building on its successful health partnership between Turkmenistan's Ministry of Health and Medical Industry and the Ambulance Authority of Richmond, Virginia, which is focused on improving emergency medical services in Ashgabat, the USAID-funded American International Health Alliance (AIHA) initiated a new health partnership between the Ministry and the University of North Dakota to retrain Ashgabat family physicians in primary health care. The partners have identified training needs and are developing a training curriculum. The Ashgabat Emergency Services training center continued to upgrade the skills of emergency service staff and to serve as a model for similar health partnerships elsewhere in Central Asia.

USAID Infectious Disease Programs: In FY 1999, the USAID-supported Centers for Disease Control and Prevention (CDC) continued to work with Turkmenistan's Ministry of Health to improve the Ministry's infectious disease control, prevention and surveillance systems. The CDC Policy Project's resident advisor was instrumental in strengthening the capacity of the Ministry of Health to work collaboratively with international organizations and local NGOs, particularly in the area of reproductive health.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided over \$34 million in humanitarian assistance to Turkmenistan. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$680,000 in transportation and grant funds to deliver \$7.55 million in targeted humanitarian assistance to the people of Turkmenistan, primarily through the Counterpart Humanitarian Assistance Program (CHAP). In FY 1999, CHAP made approximately 29 humanitarian shipments (totaling the equivalent of 45 forty-foot containers) of mainly U.S. Defense Department excess property, with an estimated total commodity value of over \$6.3 million. CHAP, which has been operational in Turkmenistan since FY 1998, provided this assistance through Turkmenistan's Ministries of Health, Social Welfare and Education; the Red Cross Society of Turkmenistan; and a coalition of seven Turkmenistani social-service NGOs. CHAP monitoring visits confirmed that each of these partners met CHAP's high standards for commodity accountability. Most of CHAP's assistance was, and will continue to be, distributed in the provinces outside of the capital city of Ashgabat. CHAP focused on serving Turkmenistan's most vulnerable groups: children, the elderly, the disabled, single mothers and large families. For FY 2000, CHAP is considering providing support for a national tuberculosis program, and to strengthen the delivery of health-care services in the Aral Sea ecological disaster area.

U.S. Department of Agriculture (USDA) – Food Aid: In FY 1999, USDA allocated \$1.23 million for the provision of food commodities to Turkmenistan as part of the American Red Cross's Aral Sea Regional Program: \$389,000 through USDA's Section 416(b) Program and \$844,000 through its Food for Progress Program. The beneficiaries of this assistance included 18,000 isolated elderly, orphans, invalids and families with special needs in the Tasauz Region.

Cross-Sectoral Programs

Peace Corps: As of the end of FY 1999, there were 52 Peace Corps volunteers in Turkmenistan: seven in the health sector, focusing on community, maternal and child health; 41 teaching English as a foreign language, English-language teaching methodologies, and English for special purposes; and four in business education. A total of 45 new Peace Corps trainees arrived in Turkmenistan at the end of FY 1999: four in business education, 18 in English language education, and 23 in community health education. In addition, the Peace Corps' Small Project Assistance (SPA) Program funded seven community-based projects implemented by Peace Corps volunteers, including the installation of a school heating system, the establishment of an English language and computer resource center, two anemia prevention projects, two English-language immersion summer camps and a methodology conference for female teachers. Peace Corps volunteers worked with other U.S. Government assistance providers, including USIA, Counterpart Consortium, Aid to Artisans, as well as other donors, to identify and support Turkmen initiatives to develop community resources.

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded \$210,000 in grants to Turkmen NGOs in the areas of private-enterprise development, civil society and public administration. The Foundation awarded five grants totaling over \$113,000 in support of efforts to develop business education courses that meet international standards, reduce legal and regulatory barriers to small-business development, and disseminate information and provide consultations to entrepreneurs and farmers on legal questions and business development issues. Private-enterprise development grants have been among the most effective type of grant in Turkmenistan, with one of them resulting in the registration of 36 new businesses.

Preview of FY 2000 Programs

Taking into account President Niyazov's continued refusal to permit broad-based economic and political reform in Turkmenistan, the U.S. Government is closely reevaluating its ongoing assistance programs and is cutting those areas that have produced little or no results. In FY 2000, assistance will be targeted on those sectors where performance has been good and positive results have been evident. Limited assistance will be provided in other sectors, with a focus on building a solid foundation for future reform efforts. First and foremost, the U.S. Government intends to increase its focus on exchange programs and training activities, on the premise that, dollar for dollar, these programs offer the greatest return on the U.S. Government's investment, as far as promoting Turkmenistan's long-term democratization and economic transformation is concerned.

In FY 2000, U.S. Government-funded assistance will support budget reform, private-sector growth and energy-sector development. Efforts in strengthening civil society and the rule of law will continue. Priority will also be given to supporting budget reform and developing Turkmenistan's oil and gas sector. In the area of budget reform, USAID will continue to advise the Turkmen Government on how to improve the country's budgeting process, and will begin working with the Ministry of Economy and Finance to help it predict more accurately the impact of major government decisions on the national economy. In the oil and gas sector, USAID will support the implementation of the regulatory framework recently adopted by the Turkmen Government.

Given that the Turkmen Government remains highly centralized and appears fearful that democratic reform will undermine the country's stability, U.S. Government-funded assistance in the area of democracy-building will focus on illustrating that democracy and rule of law need not threaten social order. Proposed rule-of-law activities for Turkmenistan will include assistance in strengthening the professionalism and ethical practices of lawyers and providing increased access for citizens and officials to Turkmen and international legislation.

In the health sector, USAID will give priority to supporting the delivery of health-care services. In FY 2000, USAID will expand its assistance in the areas of reproductive health, and infectious disease surveillance and control, with an emphasis on hepatitis and the Directly Observed Therapy Short Course (DOTS) tuberculosis control program. USAID also expects to begin support for training family physicians in FY 2000.

USAID's private-sector support programs will focus on smaller-scale enterprises and activities promoting entrepreneurial development. USAID anticipates supporting a micro-credit program and business education in collaboration with the State Department and Peace Corps.

In FY 2000, under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the U.S. Departments of Defense, Energy and State, the U.S. Government will provide modest assistance to Turkmenistan to prevent the prolifera-

tion of weapons of mass destruction (WMD), weapons technology and expertise. This support will focus on enhancing Turkmenistan's export controls and border security by providing equipment and training.

UKRAINE

Political and Economic Overview

FY 1999 saw new accomplishments but also new challenges in Ukraine. Preparations for the October 1999 presidential elections dominated the political scene for much of FY 1999. While Ukraine has had four generally free and fair national elections, and was the first post-Soviet nation to change its head of state democratically, the pace of its democratic reforms was uneven in FY 1999. The period before the October 31 presidential elections was characterized by government pressure on Ukraine's generally lively and pluralistic media, as well as on supporters of opposition candidates. International monitors criticized unbalanced media coverage and the involvement of government officials on incumbent President Kuchma's behalf but concluded that procedural violations were neither widespread nor systematic. In the aftermath of Kuchma's decisive victory, pressure on the media continued with Ukraine's "oligarchs" buying up several of the country's remaining independent outlets. The development of closer ties with the European Union (EU), the North Atlantic Treaty Organization (NATO), and other Euro-Atlantic institutions remained a priority of the Ukrainian Government—a priority reinforced by Kuchma's electoral victory. In FY 1999, Ukraine participated in the international peacekeeping missions in Bosnia and Kosovo, and ratified its Black Sea Fleet agreements with Russia. A U.S.- Ukrainian treaty on mutual legal assistance in criminal matters (MLAT) signed in 1998 by Vice President Gore and President Kuchma entered into force provisionally in September 1999, pending final ratification.

Ukraine was initially hard hit by the August 1998 Russian financial crisis. After nearly a decade of decline, Ukraine's economy went into a full-scale recession during the first three quarters of FY 1999. The recession slowed as the year progressed, and the economy showed signs of growth in the last quarter. Despite a fourth-quarter surge due to election-related spending, inflation remained relatively low for the year, at 16 percent. Throughout the year, Ukraine was on- and off-track with its International Monetary Fund (IMF) extended fund facility (EFF) program. September 1998 saw the first EFF disbursements to Ukraine, and in July the three-year program was increased to \$2.6 billion. However, in September 1999, Ukraine fell off-track when the Ukrainian Government failed to extend communal tariff increases beyond Kiev. The EFF program stipulates that the Ukrainian Government take steps to implement tax reform, lower its budget deficit, and achieve progress in privatization, deregulation and other measures encouraging private investment. Ukrainian foreign currency reserves increased steadily during the January-September period, reaching approximately \$1.2 billion.

Nevertheless, the Ukrainian Government's financial problems mounted. In the wake of the 1998 Asian and Russian financial crises, Ukraine's previously easy access to private foreign financing diminished. Ukraine successfully restructured several hard-currency commercial loans during the course of FY 1999, avoiding a sovereign default, but the specter of default continues into FY 2000, when some \$3 billion in external debts come due. Deterioration of the important Russian market for Ukrainian goods caused a significant drop in exports, but the recession-driven fall in imports has kept the trade balance stable. The situation in Ukraine's private banking sector, which was rife with non-performing loans and lacked good lending opportunities, remained precarious in FY 1999. There was only limited progress in the area of deregulation in FY 1999, and Ukraine's poor investment climate continued to deter potential investors. At \$55 per capita, Ukraine had one of the lowest levels of foreign direct investment in all of Europe, as foreign investors remained discouraged by a confusing and burdensome array of taxes, customs and certification requirements, corruption, and the absence of an effective system of commercial law.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$344.49 million in assistance to Ukraine, including \$199.01 million in FREEDOM Support Act funds, \$47.85 in U.S. Defense Department funds, \$21.07 million in other U.S. Government funds, and \$76.56 million in U.S. Defense Department excess and privately donated humanitarian commodities. In FY 1999, USAID obligated over \$135 million in assistance to Ukraine, and USIA exchange programs accounted for over \$19 million.

In FY 1999, the U.S. Government's assistance priorities for Ukraine included enterprise development, deregulation, macro-economic reform, civil-society development, community-based programs, nuclear safety and programs to promote

a free and fair presidential election. U.S. Government-funded democracy assistance included Democracy Commission small grants to non-governmental organizations (NGOs) and independent media outlets, Internet access training and development, university partnerships, and grassroots citizen exchanges focusing on women's leadership, anti-corruption, and prevention of trafficking in people, among other topics. U.S. Government-funded security assistance programs concentrated on promoting military reform and strengthening Ukraine's capability to operate jointly with NATO forces.

Cross-Sectoral Programs

Poland-America-Ukraine Cooperative Initiative (PAUCI): PAUCI is a trilateral initiative launched by senior officials of the three participating countries at a meeting in Kiev in October 1998. The initiative is designed to promote cooperation among citizens and governmental and non-governmental organizations from the three countries, with a particular emphasis on helping Ukraine draw upon Poland's successful experience in implementing political and economic reforms. The three participating countries agreed that PAUCI will initially focus on three priority areas: local government reform, macro-economic reform, and small-business development. In FY 1999, USAID supported the establishment of a PAUCI Secretariat with offices in Kiev and Warsaw, as well as the launching of a PAUCI grants program. At a meeting of PAUCI's trilateral council in July 1999, grant application guidelines were approved, as was the composition of the PAUCI Secretariat's senior staff and the first PAUCI grants. These grants, which totaled \$150,000, funded a cross-border training and local rural development program for Crimean farmers, best business practice and curriculum development programs between Kiev and Warsaw, exchanges between Polish and Ukrainian agri-business associations, and local government training involving Polish and Ukrainian Government officials and NGO representatives.

Kharkiv Initiative: In FY 1998, the U.S. Government made Ukraine's Kharkiv Region an assistance priority. Kharkiv is the center of Ukraine's nuclear industry, and the Kharkiv Initiative was conceived to help the region in the wake of the Ukrainian Government's decision to end nuclear cooperation with Iran. The initiative is designed to help diversify and develop the region's economy, particularly through assistance to small and medium-sized businesses. In FY 1999, the U.S. Government opened an office in Kharkiv that will assist local businesses and potential investors, and signed a joint statement on designing an economic development program for the region. In October 1998, the U.S. Department of Energy (DOE) hosted a U.S.-Ukraine Nuclear Commerce Cooperation Conference in Washington, which involved numerous companies from Kharkiv's nuclear power industry. A follow-up DOE-sponsored energy and trade conference took place in Kharkiv in May 1999, with U.S. businesses and the Deputy Secretary of Energy among its participants. In August-September 1999, the U.S. Government delivered \$18.5 million in humanitarian aid and U.S. Defense Department excess medical equipment and supplies to the Kharkiv Region. In September 1999, the U.S. Government placed a resident coordinator in Kharkiv to oversee ongoing Kharkiv Initiative activities, and completed a scope of work on an economic development program, issuing a request for proposals. USAID, the U.S. Embassy's Public Diplomacy Office, the Science and Technology Center in Ukraine (STCU) and the U.S. Commercial Service implemented a number of other activities under this initiative, including training for entrepreneurs, operation of a business incubator, collaborative research project involving former weapons scientists and institutes, and dissemination of information about trade and investment opportunities in Kharkiv.

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded \$2.66 million in grants to Ukrainian NGOs. Included in this total were 97 grants totaling some \$1.98 million awarded by the Foundation's Western NIS Regional Office in Kiev in three program areas: 56 grants totaling approximately \$960,000 in private enterprise development, 31 grants totaling almost \$625,000 in civil-society development, and 10 grants totaling approximately \$395,000 in public administration and policy. In FY 1999, the Eurasia Foundation uncovered evidence of fraud in its Kiev-based operations, the scope of which is the subject of an ongoing audit and investigation by USAID's Office of the Inspector General. The grant-making activities of the Foundation's Kiev office have been suspended, pending the outcome of the investigation.

Training and Exchange Programs

Since FY 1993, U.S. Government-funded exchange programs have brought almost 11,400 Ukrainian citizens to the United States for long-term study or shorter-term professional training, including almost 2,000 in FY 1999 alone. As a result of these programs, there is a growing cadre of Ukrainian citizens in leadership positions with an understanding of the basic elements of a democratic, free-market system.

U.S. Information Agency (USIA) Exchanges: In FY 1999, over 1,450 Ukrainians traveled to the United States under USIA academic and professional exchange programs, which included a greater variety of programming than any previous year, seeking to engage students and teachers, NGOs and government officials, journalists, legal professionals, environ-

mental experts and research scholars. Over 350 Ukrainians traveled to the United States through nationwide open and merit-based academic competitions, while an additional 250 participated in school and university partnership exchanges. Over 600 Ukrainian professionals traveled to the United States on USIA's Community Connections and International Visitor (IV) / FREEDOM Support Grant programs in fields ranging from legislative development and banking to American studies and journalism. Women's programming received a significant emphasis, with a total of over \$500,000 in grants in support of programs on women's leadership, prevention of trafficking in women, small-business support and environmental health issues. An anti-corruption grant was awarded to Michigan State University to provide in-country and U.S.-based training to legal professionals from four regions of Ukraine.

USAID Training: In FY 1999, USAID provided training to some 720 Ukrainians: over 500 in the United States, 115 in third countries (including 78 in Poland), and almost 100 in Ukraine. Training topics included economics and business, democracy and civil society, health, environment and agriculture. Female participation in these programs increased from 49 percent in FY 1998 to 52 percent in FY 1999.

Peace Corps English-Teaching Volunteers: In FY 1999, the Peace Corps' Teaching English as a Foreign Language (TEFL) Project expanded to a total of 97 volunteers teaching in 48 communities around Ukraine. In addition to teaching English, the volunteers helped their Ukrainian colleagues gain exposure to Western-style teaching techniques and classroom activities. 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. Since the beginning of the TEFL project in 1993, Peace Corps volunteers have facilitated the donation of almost 500,000 books and periodicals to Ukrainian libraries, schools and resource centers.

U.S. Department of Agriculture (USDA): In FY 1999, USDA's Cochran Fellowship Program provided short-term training in the United States for 21 Ukrainian agricultural specialists in topics related to agricultural trade, management, marketing, policy and technology transfer. Since beginning operations in Ukraine in 1992, the Cochran Program has trained a total of 234 Ukrainian participants. In FY 1999, the Cochran program for Ukraine was jointly funded with FREEDOM Support Act funds and a contribution from the Foreign Agricultural Service's Emerging Markets Program. In addition, USDA's Faculty Exchange Program has been working with Ukraine since 1995, providing training for agricultural educators from Ukrainian agricultural institutions in marketing, economics, and law. Since 1995, 30 Ukrainian educators have received training under the Faculty Exchange Program. In FY 1999, seven Ukrainians studied at U.S. agricultural universities. USDA also helped create farmers' associations in Ukraine, and to improve Ukraine's national agricultural grades and standards.

Trade and Investment Programs

U.S. Department of Commerce: Under the Commerce Department's Special American Business Internship Training (SABIT) Program, 56 Ukrainians traveled to the United States in FY 1999 for one- to three-month internships in the following areas: middle-management training, defense conversion, technical standards, financial services, investment stimulation, environmental technologies, and science. Also in FY 1999, the Commerce Department's Business Information Service for the NIS (BISNIS) "Search for Partners" program processed 150 lead applications and published 40 leads. BISNIS also published four trade opportunity leads and held four presentations on the commercial climate and investment opportunities in Ukraine, which were attended by a total of approximately 120 U.S. companies. In addition, 54 U.S. companies received consultations during a BISNIS Outreach program held in September 1999. The Commerce Department-sponsored American Business Center (ABC), open since 1996, continued to function as both a business information resource and a logistical resource for U.S. companies entering the Ukrainian market.

Western NIS Enterprise Fund (WNISEF): Since its establishment in 1994, the WNISEF has been providing capital and management tools for restructuring and expanding medium-size private enterprises. As of the end of FY 1999, the WNISEF had invested approximately \$55 million in 16 medium-sized Ukrainian companies employing a total of some 6,800 people. The WNISEF's 18 portfolio companies were also exerting a growing economic impact on their communities in FY 1999, with estimated sales of about \$123 million. The management and employees of these companies are part of a growing grassroots constituency for improving Ukraine's commercial environment. Since 1994, the WNISEF's Small Business Loan Program has made 59 loans totaling \$2.5 million to small businesses employing some 1,600 people. Of these loans, 16 were still active, with \$400,000 outstanding. About \$1.6 million had been repaid, and \$500,000 had been written off.

Business and Economic Development Programs

USAID Support for Small and Medium-Sized Enterprises (SMEs): In FY 1999, USAID implemented an SME development program that was active in policy reform, the transfer of business skills, and the provision of business services and credit. The program's focus on gender issues and the participation of women entrepreneurs in SME programs increased in FY 1999. Support to Ukraine's State Committee for Entrepreneurship Development (SCED) resulted in a detailed analysis of constraints to business growth and the passage of legislation reducing tax and inspection burdens on entrepreneurs. USAID sponsored national and regional policy roundtables to facilitate a dialogue between entrepreneurs and local and central government representatives. Assistance to over 90 business associations focused on membership services and lobbying capacity. A USAID-funded survey of over 10,000 businesses and individuals in Ukraine provided solid demographic information on business activity in the formal and informal sectors. This information will serve as a basis for Ukrainian Government, Western donor, and private-sector policy decisions in FY 2000. In FY 1999, USAID shifted its focus away from direct funding of business service centers to targeted support of skills-transfer initiatives. Some 2,000 individuals received training under USAID's Marketing Assistance Program in the Kharkiv Region. In early 1999, USAID launched a Business Management Education Program that will involve over 30 Ukrainian educational institutions and will reach thousands of undergraduate students. USAID-funded business credit programs included the small-business loan funds of the Western NIS Enterprise Fund (WNISEF) and the Eurasia Foundation, as well as technical assistance in conjunction with SME credit lines issued by the European Bank for Reconstruction and Development (EBRD). To date, the EBRD program has provided 153 loans worth over \$4.6 million. Business incubator programs in Lviv, Kiev and Kharkiv provided business services and credit. Enterprise land privatization continued in FY 1999, transferring ownership of land parcels of significant value to over 1,000 businesses.

Peace Corps Business Development Program: In FY 1999, 117 Peace Corps business development volunteers served in 38 Ukrainian communities. In cooperation with the National Agency of Ukraine for Development and European Integration (NAUDEI), the volunteers facilitated the transfer of free-market business skills and expertise at various levels by working with current and future entrepreneurs, as well as with schools, universities, banks, business centers, business incubators, non-governmental organizations (NGOs) and government agencies at the regional and local levels. A pilot program in agribusiness support continued to expand in FY 1999 and will represent approximately 10 percent of the Peace Corps' entire Ukraine program by FY 2000.

USAID Macro-Economic Assistance: In FY 1999, USAID supported the Ukrainian Government's efforts to meet the conditions of the International Monetary Fund's (IMF) extended fund facility (EFF) pertaining to taxation, budgeting, deregulation and public administration, all of which are key to Ukraine's pending World Bank loans. USAID also continued to provide technical assistance in the areas of intergovernmental funds transfers and local government finance.

USAID Financial-Sector Programs: After the IMF identified Ukraine's seven largest banks as a problem area for systemic risk, USAID helped the IMF and the National Bank of Ukraine (NBU) complete extensive diagnoses of these banks. In summer 1999, the banks signed letters of commitment with the NBU in which they committed to undertake a series of structural improvements. USAID and TACIS (the European Union's technical assistance program for the NIS) designed activities that will support these letters of commitment and will assist the restructuring efforts of four of the banks. Meanwhile, with USAID support, the NBU's Bank Supervision Department is implementing a program of full-scope examinations of Ukraine's "second-tier" banks, which account for another twenty percent of the assets of the country's banking sector.

USAID Privatization Assistance: USAID completed its assistance to the Ukrainian Government's Mass Privatization Program in December 1998, after the privatization of 8,723 medium-sized and large enterprises to a level of 70 percent and 5,592 enterprises to a level of 100 percent. During the course of the program, the public collected over 94 percent of the privatization property certificates and 70 percent of such certificates were exchanged for ownership rights in auctions and preferential sales. In FY 1999, USAID shifted the focus of its privatization program to grain elevators and small-scale projects, primarily unfinished construction sites, while helping the Government of Ukraine meet World Bank lending conditions. Some 1,500 unfinished construction sites were privatized in FY 1999 and a total of 1,000 new jobs were created. All in all, a total of 5,500 unfinished construction sites have been privatized, with select sites creating upwards of 5,000 new jobs upon completion.

USAID Capital Markets Programs: Ukraine's broker-dealer association (PFTSA) and its nationwide electronic trading system (PFTS), both of which were created with USAID assistance in 1996, grew in FY 1999 to 260 members and an average monthly trading volume of \$14 million. PFTSA's strong standards, internal controls and arbitration procedures

have made it the dominant market in Ukraine and the only trading system to attract foreign brokers as members. Progress also continued on a USAID-supported securities industry depository, which was able to conduct transactional delivery-versus-payment functions in accord with basic international standards. In FY 1999, the USAID-assisted State Stock Market Securities Commission (SSMSC) strengthened its relationship with the U.S. Securities and Exchange Commission (SEC). In addition to holding annual reports from 670 large-issuer companies, SSMSC's Public Information Office has established an Internet site for wider public access. Key laws and regulations have been passed, including laws on a national depository system, accounting and financial disclosure, state regulation of the securities market, and unification of market oversight authority; requirements that large firms use independent registrars; and regulatory requirements for all professional market participants.

USAID Commercial Law Programs: In FY 1999, USAID supported regulatory, collateral and bankruptcy reform in Ukraine. USAID's regulatory reform project provided deregulation assistance to the State Committee for Entrepreneurship Development (SCED) and supported three pilot municipal regulatory activities. With USAID assistance, a state pledge registry for movable property and tax liens became operational on March 1, 1999, and work began on additional legislative reform to broaden the scope of the registry. A new law on bankruptcy was passed in August 1999, which provides for major advances in the protection of creditors and allows for debtor-led restructuring. A comprehensive USAID-funded training program was under way, and USAID also supported efforts to prepare a draft civil code for its second reading in parliament. A USAID-supported commercial law clearinghouse became operational in March 1999, serving as a repository of information about legislative initiatives and encouraging broadened public participation in the legislative process.

U.S. Department of Commerce – Commercial Law Development Program (CLDP): In FY 1999, a CLDP resident advisor placed 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 numerous Ukrainian Government officials and representatives of public organizations on topics including customs valuation and procedures, in conjunction with the U.S. Customs Service; the protection of intellectual property rights, in conjunction with the U.S. Patent and Trademark Office and the U.S. Customs Service; sanitary and phyto-sanitary measures, in conjunction with the U.S. Food and Drug Administration and the U.S. Department of Agriculture; and technical barriers to trade, in conjunction with the National Institute of Standards and Technology (NIST).

U.S. Department of the Treasury – Technical Advisors: In FY 1999, Treasury Department resident advisors worked in Ukraine in the areas of budget policy, banking-sector oversight, tax administration and financial-sector reform. (Please see the Treasury Department section in Part III of this report.)

USAID Agricultural Reform Programs: In FY 1999, the pace of reform in agriculture remained slow in Ukraine; nevertheless, USAID's agricultural reform programs showed some positive results. USAID-supported farm-restructuring efforts were expanded, with 539 farms restructured to date and 200 more in the process of being restructured. In FY 1999, land titles were issued to over 90,000 Ukrainians and another 40,000 had received titles by the end of 1999. In addition, USAID initiated five new U.S.-Ukrainian agribusiness partnerships in FY 1999. By the end of FY 1999, 410 grain elevators eligible for privatization had been privatized to a level of 70 percent and 53 were 100-percent privatized. The Ukrainian Cabinet of Ministers facilitated this process by passing a resolution allowing the full privatization of 304 grain elevators that were partially privately owned at the time. In late FY 1999, USAID began implementing a new agriculture strategy focused on land and farm privatization, and on the provision of agricultural inputs and support services to private farmers in two progressive oblasts (regions). A request for proposals was issued in August 1999, and technical assistance is expected to commence in early 2000.

Energy Programs

USAID Energy-Sector Programs: In FY 1999, USAID's energy programs focused on strengthening Ukraine's National Energy Regulatory Commission, implementing a competitive wholesale electricity market, continuing energy-sector partnerships and training activities, enhancing municipal energy efficiency, and supporting the commercialization of Ukraine's coal-bed methane (CBM) sector. By the end of FY 1999, USAID's power-sector programs were focusing increasingly on the privatization of electricity-sector assets to ownership by strategic investors. USAID played a leading role in the G-7/Ukrainian Government Task Force on Power-Sector Privatization, a high-priority effort to revitalize the operations of Ukraine's wholesale and retail electricity markets. Over 600 Ukrainian energy professionals participated in USAID-funded training programs and the number of USAID-funded utility partnership programs increased from four to six, with the establishment of a new partnership between KharkivOblEnergo and the First Energy Corporation of Akron,

Ohio, and one between Ukraine's National Energy Regulatory Commission and the Ohio Public Utilities Commission. USAID also helped form an advisory board to the Alternative Fuel Center (AFC), which brings together key individuals from eleven Ukrainian Government agencies. In FY 1999, the AFC contributed amendments to key legislation to improve CBM utilization, safety and commercialization. USAID also supported the development of production-sharing agreement (PSA) legislation for the oil and gas sector, which parliament passed and the president signed into law in FY 1999.

U.S. Department of Energy (DOE) Programs: In FY 1999, DOE-funded projects in Ukraine included the construction and equipping of a radio-ecology laboratory in Slavutych, the further development of a nuclear fuel qualification project in Zaporizhzhia, an in-depth safety analysis at several Ukrainian nuclear power plants, and a May 1999 energy and trade conference in Kharkiv. At the Chornobyl nuclear power plant, DOE-funded programs included a heat plant project, fire-safety upgrades, the installation of safety parameter display system computers in the Unit Three control room, as well as a robotic system inside the "sarcophagus." DOE also began work on the creation of a dry-cask spent-fuel storage system, fire-safety upgrades, and a safe shutdown analysis at the Zaporizhzhia nuclear power plant. FY 1999 funding for these DOE projects totaled \$50.6 million.

Democracy Programs

U.S.-E.U. Transatlantic Partnership: FY 1999 saw the launching of the first stage of the U.S.-European Union (EU) Transatlantic Partnership for Ukraine, a two-year, \$5 million civil society-building project being implemented by the United States and countries of the European Union as part of the U.S.-EU New Transatlantic Agenda. Announced at the December 1998 U.S.-EU summit in Washington, this initiative breaks new ground in U.S.-EU cooperation. In addition to being co-funded equally by the U.S. Government and the EU, the program's projects are also administered jointly. This cooperation reflects a shared interest in seeing Ukraine develop into a modern democratic state, of which civil society is a vital element. This past summer, with USIA support, 18 Ukrainian professors of public administration spent six weeks in intensive courses at the University of Kansas, and the EU will organize and fund a similar course in summer 2000. The first stage of the Transatlantic Partnership's U.S. small-grants component, which is designed to support Ukrainian NGOs, attracted 360 proposals competing for \$500,000 in grant funds. This was in addition to the U.S. Embassy's Democracy Fund Small-Grants Program, which awarded over \$166,000 to Ukrainian NGOs in FY 1999 (see below). Other components of the Transatlantic Partnership, including civic education, parliamentary training, public administration training for civil servants and cooperative U.S.-Ukrainian television productions on transparency in the legal field were also getting under way in FY 1999. (See also USIA section in Part III of this report.)

Democracy Fund Small-Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission awarded 22 grants totaling over \$166,000 to Ukrainian NGOs and independent media outlets, bringing the cumulative total since 1996 to 49 grants.

USAID Election-Related Assistance: In preparation for the October 31 presidential elections, USAID implemented a variety of activities to promote free and fair elections. USAID-funded technical assistance to Ukraine's Central Election Commission (CEC) helped it improve election administration procedures and develop materials to train election officials to implement the new procedures. In response to the emergence of a broad coalition of NGOs committed to free and fair elections, USAID supplemented existing grant programs to provide funding to groups throughout Ukraine wishing to coordinate plans for voter mobilization, civic education, and election monitoring.

USAID Local Government Programs: In FY 1999, USAID-funded efforts to improve urban public transportation resulted in vastly improved service delivery in all nine project cities, greatly improved management (indicated by large increases in revenues and decreases in municipal subsidies), and improved financial planning. USAID's Local Government Project concluded with the implementation of a computerized budget, expenditure and revenue analysis model in six cities, and the adoption of a water enterprise financial analysis model in five cities. Through regional training workshops, this model was introduced to—and is now being used by—over 50 Ukrainian cities. Under USAID's Municipal Development Loan Fund Project, two pilot cities completed two business plans each, for major infrastructure projects involving the active participation of citizens and the business community, in preparation for applying for loans from major financial institutions, including the World Bank. In FY 1999, five additional USAID-funded U.S.-Ukrainian city partnerships were established between Berdiansk and Lowell, Massachusetts; Rubizhne and Flint, Michigan; Kamianets-Podilsky and Athens, Georgia; Lviv and Philadelphia; and Rommy and Longview, Texas. USAID-funded in-country training and U.S.-based internships focused on economic development, budget, housing and communal services, citizen participation and transportation. The successful Lviv Vodokanal Project was implemented in three other Ukrainian cit-

ies, resulting in significant improvements in water quality (a seven-percent improvement in water quality in one of the participating cities) and in reduced energy consumption (25 percent in another participating city). USAID continued to provide support to the Association of Ukrainian Cities (AUC), whose membership expanded to 270 cities in FY 1999. The AUC effectively lobbied for passage of the FY 2000 budget code, which gave local governments more fiscal autonomy. The association also increased its training capacity and improved its communications network.

USAID Political Process Programs: In FY 1999, USAID continued to help develop the institutional capacity of Ukraine's national parliament (the Supreme Rada) and local councils, by providing practical advice on how to conduct legislative hearings, exercise oversight of the executive branch, and increase the professionalism of parliamentary deputies and their staff. USAID-funded political party training and organizational work with Ukrainian NGOs helped raise the political skills of Ukrainian citizens, many of whom used their new skills to run for office themselves or to lobby local governments for civic improvements. In addition, a complementary program of small grants to independent think tanks continued to broaden the sphere of public-policy debate in Ukraine.

USAID Judicial Reform and Rule-of-Law Programs: In FY 1999, USAID-funded training helped Ukrainian lawyers improve their professionalism and ethical standards, helped the Constitutional Court and other Ukrainian courts improve the professionalism of judges and promote judicial independence, and helped create lawyers' associations. Significantly, in FY 1999, the head of Ukraine's Supreme Court responded publicly to government criticism by stating that the job of the courts is not to serve the government but to base its rulings on Ukraine's laws and constitution. In addition, USAID's Rule-of-Law Program continued to promote citizen participation in government decision-making and to empower citizens to hold their government accountable through advocacy NGOs and through services provided by *pro bono* legal clinics. In FY 1999, Ukrainian citizens' advocacy groups registered successes in defending citizen and community rights, especially on environmental matters.

USAID Anti-Corruption Programs: In FY 1999, USAID implemented model anti-corruption programs in Donetsk and Lviv that were based on the concept of a public-private partnership. These community partnerships developed their own strategies to fight corruption and had several major accomplishments in combating corruption in Donetsk, contributing to the decision by a U.S.-British business venture to invest over \$65 million in a Donetsk-based project. The partners also recommended changes to the existing anti-corruption law, which were incorporated into the new draft law prepared by the Presidential Anti-Corruption Committee.

U.S. Department of State – Anti-Crime Training and Technical Assistance (ACTTA) Program: In FY 1999, a Bilateral Law Enforcement Working Group was established under the auspices of the U.S.-Ukraine Binational Commission. The State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) continued to fund a resident legal advisor (RLA) in Kiev to provide technical assistance to the Ukrainian Government and to coordinate U.S. Government-funded criminal justice and law enforcement programs in Ukraine. The RLA worked with the Ukrainian Government on new criminal law and criminal procedure codes and money-laundering statutes. In FY 1999, ACTTA courses and seminars for law enforcement agencies and members of the judiciary were held in Kiev, Kharkiv, Mykoliav, Odesa, Yalta and Luhansk. In addition, Ukrainian law enforcement officials participated in regional training on combating transnational organized crime at the International Law Enforcement Academy (ILEA) in Budapest, Hungary. The U.S. Government also sponsored the travel of Ukrainian Supreme Court judges to the United States to participate in a program on criminal procedures.

Criminal Justice Programs: With FREEDOM Support Act funding provided by the U.S. Department of Justice (DOJ), the American Bar Association's Central and East European Law Initiative (ABA/CEELI) placed a criminal law liaison in Kiev, and established an extensive criminal law training program for Ukraine's judiciary. The U.S. Embassy's Resident Legal Advisor sponsored a seminar with FBI instructors on law enforcement safety and survival for 35 employees of Ukraine's Ministry of Internal Affairs (MVD), as well as a seminar on financial institution fraud. The U.S. Government also sponsored the travel of several Ukrainian law enforcement officials to visit U.S. FBI offices for training, to hold meetings at FBI headquarters, and to testify before a congressional appropriations committee. Also with DOJ funding, the American University established a center for the study of organized crime at Ukraine's National Law Academy.

USAID Women's Programs and Anti-Trafficking Programs: Through the NIS-U.S. Women's Consortium, USAID worked with over 200 Ukrainian women's organizations in FY 1999. Trafficking-prevention centers were established in Lviv, Dnipropetrovsk and Donetsk to serve those women and girls who are most vulnerable to trafficking, by providing them with job-skills training, hotlines, walk-in consultations, and referrals for legal, psychological and medical assistance. A total of \$75,000 was awarded to 28 Ukrainian NGOs in 18 cities and towns to work on USAID's anti-

trafficking initiative. A new program working with primary health-care clinics in six Ukrainian cities and a network of 18 small-business support centers were also established to assist women directly. In addition, the USAID-funded Women's Economic Empowerment Program (WEEP) provided targeted assistance to women to establish and run businesses and women's business associations. Through these and other activities, the U.S. Government helped raise public awareness of the trafficking issue in Ukraine. As a result of USAID-sponsored training, a joint NGO/Ukrainian Government organization, the Coordination Committee to Combat Trafficking in Women, was formed and began pressuring the Ukrainian Government to revise laws and strengthen international cooperation on this issue, as well as sensitizing policymakers and lawyers to it.

USAID Independent Media Programs: In the face of increasing governmental pressure on independent media during an election year, USAID programs continued to help defend freedom of the press through educational, media monitoring, legal defense and business management programs designed to increase the independence of Ukraine's media outlets. USAID programs included seminars on the rights and responsibilities of journalists reporting on election campaigns, and sponsored visits for journalists to Belgium and Israel to examine election campaign coverage by the media in those countries. USAID assistance also directly supported the production of independent news programs, non-partisan civic education broadcasts, and public service announcements.

Environmental Programs

USAID Environmental Programs: In FY 1999, USAID continued to support the integration of environmental issues into sectoral policy through a program to promote sustainable development, in cooperation with the United Nations Development Program (UNDP) and Ukraine's Commission on Sustainable Development. USAID initiated a program to help the Ukrainian Government reduce greenhouse emissions and meet its commitments under the Framework Convention on Climate Change. Cooperation between the United States and Ukraine in this area is expected to increase Ukraine's potential for investment and to improve productivity in those sectors of the economy that are responsible for emissions of greenhouse gases. USAID also provided support to establish a network for raising awareness among Ukrainian communities on the use of local environmental action programs to identify, rank and address environmental problems. USAID helped Ukrainian communities share lessons learned and build partnerships with communities in other transition countries and in the United States. Also in FY 1999, USAID launched Eco-Links, a five-year, \$25 million regional program, which established a local office in Kiev. Eco-Links grants will promote market-based solutions to environmental problems.

Peace Corps Environmental Program: In FY 1999, 32 Peace Corps volunteers placed in 22 communities worked with the Ministry of Environmental Protection and Nuclear Safety to increase the organizational capacity of Ukraine's environmental institutions, support environmental protection efforts at Ukraine's national parks and reserves, and help Ukrainian educators and environmental program leaders develop and implement environmental awareness projects in their local communities.

Social-Sector and Humanitarian Programs

USAID Health-Care Reform Programs: In October 1999, USAID supported an international health donor conference as a first step in establishing a system for long-term coordination of technical assistance to the Ukrainian Ministry of Health. As part of its effort to build Ukraine's capacity to effect health-care reform, USAID sponsored a pre-conference executive seminar for senior Health Ministry staff. In addition, the USAID-funded U.S.-Ukraine Health Partnership Program identified Ukrainian and U.S. partners for six community-based primary health-care activities in Ukraine. In FY 1999, USAID also worked to build the sustainability of women's wellness centers and opened an additional center in Kiev. The USAID-supported Chernobyl Childhood Illness Project launched thyroid cancer and psycho-social screening outreach programs. In addition, birth-defect data collection and up-to-date statistics processing activities were launched with USAID support in two radioactively contaminated regions of Ukraine. After intensive U.S.-based training of Ukrainian specialists in genetic disease diagnosis and registry, USAID's Rational Pharmaceutical Management Project launched a drug selection system, and provided technical assistance to revise the guidelines for the standard treatment of several groups of diseases. In addition, pilot implementation of the standard breast cancer chemotherapy protocol was completed, and a breast cancer survivors' psycho-social support network was initiated. USAID's Women's Reproductive Health Initiative promoted the Health Ministry's strategic policy approach to women's reproductive health issues, created an information base on current legal and regulatory policies in Ukraine, and facilitated a policy dialogue on these issues.

USAID Social-Sector Programs: In FY 1999, USAID designed a pension-reform strategy for Ukraine. In partnership with the Ukrainian Government, USAID continued to support efforts to establish a legal framework for a reformed three-pillar pension system. The government created an Office of the Actuary for Pension Fund Issues, and actuarial models were developed to forecast pension fund and employment fund revenues and expenditures. USAID also continued assistance designed to increase the capacity of Ukrainian Government agencies responsible for poverty-alleviation programs. In FY 1999, USAID helped facilitate the nationwide implementation of a new family assistance program that provides a guaranteed minimum per-capita income. USAID also supported the nationwide rollout of the Mykolaiv Oblast (Region) social-protection model, which features one-stop services for social protection. In addition, USAID designed and conducted a quarterly household labor force survey in collaboration with the State Committee for Statistics and the U.S. Embassy's International Labor Office.

USAID Support for the Development of Sustainable Social-Sector NGOs: In FY 1999, USAID-funded U.S. private voluntary organizations (PVOs) helped Ukrainian NGOs working with children, at-risk youth and the elderly, on drug and alcohol addiction and prevention, HIV prevention, civic advocacy and assistance to the disabled. To date, 181 seed grants totaling more than \$1.8 million have been awarded to 139 grantees, with cost-sharing contributions of over \$1.5 million from the recipient organizations. Corporate and Ukrainian Government challenge-grant programs successfully promoted NGO partnerships with the public and private sectors, with USAID matching more than \$200,000 raised by local NGOs from local business and governmental sources. USAID also provided training in business skills and social enterprise skills to support the financial sustainability of NGOs.

U.S. Department of Defense (DoD) – Humanitarian Assistance: In FY 1999, humanitarian assistance funded under DoD security assistance provided support to a children's pulmonary tuberculosis sanitarium and a regional burn center, both located in Odesa. In addition, components of the U.S. European Command (EUCOM) carried out humanitarian assistance activities while on operational deployments or training exercises. In FY 1999, the children's tuberculosis sanitarium and the burn clinic received over \$135,000 worth of excess DoD property. The delivery was made in March and consisted of items such as blankets, sheets, computers, beds, mattresses, night stands, wardrobes and medical supplies and equipment. In addition, the Office of Defense Cooperation received \$135,000 for renovation of an orphanage in FY 2000.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided over \$416 million in humanitarian assistance to Ukraine. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$3.79 million in transportation and grant funds to deliver \$ 76.56 million in humanitarian assistance to targeted groups in Ukraine. Much of this assistance was in the form of commodities provided through the U.S. Defense Department Excess Property Program and delivered by the Counterpart Humanitarian Assistance Program (CHAP). CHAP's assistance was the centerpiece of an emergency relief effort focused on the victims of flooding in Ukraine's Zakarpatia Region. Several other U.S. PVOs provided critically needed high-value pharmaceuticals to Ukraine: Children of Chernobyl, Project Hope, Heart-to-Heart, International Medical Corps, and the World Council of Hellenes Abroad. In FY 1999, Operation Provide Hope funded a total of six humanitarian airlifts and 544 deliveries via surface transportation, including the transportation of humanitarian cargoes by many small and medium-sized PVOs.

Humanitarian Assistance to the Kharkiv Oblast (Region): A total of \$18.5 million in U.S. Defense Department excess medical equipment, supplies and pharmaceuticals was delivered and distributed during the August-October period to 18 hospitals and clinics in Kharkiv Oblast. (Please see Kharkiv Initiative section above.)

Security Programs

Science and Technology Center in Ukraine (STCU): The STCU was established in 1995 under an international agreement among the United States, Canada, Sweden and Ukraine, to provide former Soviet weapons scientists with opportunities to work on peaceful civilian research projects so that they would not be tempted to sell their expertise to countries of proliferation concern. In FY 1999, the STCU completed its fourth year of operations at its headquarters in Kiev. The STCU's three branch offices in Kharkiv, Dnipropetrovsk and Lviv, which are located at major Ukrainian research complexes, facilitate participation in the STCU by a broader spectrum of the former Soviet weapons-research establishment in Ukraine. As of September 1, 1999, the STCU had committed funding to 235 projects throughout Ukraine, valued at over \$29 million and employing over 3,000 former Soviet weapons scientists, plus substantial numbers of other technical and support personnel. The STCU also conducts a number of related activities, including a partnership program that brings in additional funding from the private sector.

U.S. Department of Defense (DoD) – Cooperative Threat Reduction (CTR) Program: Since FY 1992, the U.S. Government has budgeted over \$521.6 million in CTR assistance for Ukraine, of which \$475.5 million had been obligated as of October 1999. Almost two-thirds of the CTR resources for Ukraine have been devoted to the elimination of strategic nuclear arms. The CTR program helped Ukraine reach the landmark goal of removing all nuclear warheads from its territory by June 1996. Nuclear missile dismantlement and storage, and silo destruction in accordance with the START Treaty was originally scheduled for completion in FY 1998. By November 1998, nearly all of the 130 SS-19 missiles, launch silos (including one training silo), and all 13 SS-19 launch control center silos had been eliminated with the help of CTR assistance. In FY 1999, DoD agreed to work with Ukraine to help eliminate the infrastructure associated with its SS-19 and SS-24 missile systems. Other components of Ukraine's CTR program included industrial partnerships to redirect resources from the production of weapons of mass destruction to civilian production, enhance Ukraine's control over its nuclear materials and weapons technology, and provide emergency-response training.

Regional Stability Programs

International Military Education and Training (IMET) Program: In FY 1999, the U.S. Government provided Ukraine \$1.34 million in IMET funds for the training of Ukrainian military and related civilian personnel, with an emphasis on demonstrating the proper roles of the military in a civilian-led democratic government, promoting effective defense-resources management, training individuals likely to hold key positions in the Ukrainian Government, and promoting military professionalism. In addition, the Expanded IMET (E-IMET) Program trained Ukrainian military and civilian officials, including civilian personnel from non-defense ministries and the legislative branch who work on military-related issues. E-IMET training focused on managing and administering military establishments and budgets, promoting civilian control of the military, and creating and maintaining effective military justice systems and military codes of conduct. The FY 1999 IMET-Ukraine program funded the participation of some 47 Ukrainians in U.S.-based courses and approximately 200 in mobile training programs in Ukraine.

Foreign Military Financing (FMF) Program: In FY 1997, Ukraine became eligible to receive FMF grants for the purchase or leasing of U.S. defense articles and services. Since then, the U.S. Government has provided Ukraine \$13.1 million in FMF funding, including \$3.4 million in FY 1999, to advance the objectives of NATO's Partnership for Peace (PFP) program and enhance Ukrainian capabilities to operate jointly with NATO forces in peacekeeping, search and rescue operations, and other humanitarian exercises. Ukraine used its FMF funds to procure English-language laboratories, computers and night-vision devices, and to provide training for language laboratory instructors, non-commissioned officers (NCOs), army medical officers, and navy international health-resource managers.

Support for Ukrainian Involvement in Kosovo Peacekeeping Forces (KFOR): In August 1999, the U.S. Department of State reprogrammed \$700,000 in FMF funds to support the participation of a Ukrainian helicopter unit and security company in NATO peacekeeping operations in Kosovo. In September, the Department of State authorized Ukraine to use the remaining \$4 million in its FMF account to fund its participation in KFOR. This funding is expected to support an extended deployment at Camp Bond Steel in Kosovo, and will provide housing, food, fuel, aircraft maintenance facilities, a motor-pool and other base operations support. The Ukrainian contingent is making a significant contribution to KFOR operations and in so doing, is gaining valuable experience in peacekeeping operations.

Enhanced International Peacekeeping Capabilities (EIPC) Program: In FY 1999, Ukraine received \$900,000 under the EIPC program, for the purpose of providing additional training and equipment to improve the effectiveness of Ukraine's peacekeeping forces. The training will focus on the development and standardization of Ukraine's peacekeeping doctrine. EIPC funding will also be used to purchase communications equipment, computers, printers, projectors, language labs and instructional material to support peacekeeping training.

Warsaw Initiative / Partnership for Peace (PFP): In FY 1999, Ukraine received approximately \$1.2 million under the U.S. Defense Department's Warsaw Initiative to facilitate Ukraine's participation in PFP events. These funds helped Ukraine host two "In the Spirit of PFP" exercises—Peace Shield '99 and Sea Breeze '98—as well as planning conferences for these exercises. Warsaw Initiative funds also supported Ukrainian participation in exercises such as Combined Endeavor '99, Rescuer '99, CENTRASBAT '99, Cooperative Partner, Cooperative Best Effort '99, and Cooperative Dragon '99. In addition, Warsaw Initiative funds enabled Ukraine's Ministries of Defense and Emergencies to participate in numerous NATO-sponsored small-scale, non-exercise events.

Preview of FY 2000 Programs

In FY 2000, the U.S. Government will implement the Next Generation Initiative in Ukraine, providing increased funding for training and exchange programs for Ukraine's future leaders. U.S. Government-funded high-school exchanges under the State Department's Future Leaders Exchange (FLEX) Program, as well as its undergraduate and graduate exchange programs, are expected to attract an increased number of qualified candidates in FY 2000. With the inauguration of a new Ukrainian presidential administration in late 1999, the U.S. Government will seek to help the new government develop and implement a sound economic reform program, while continuing to build grassroots support for reform by strengthening civil society.

USAID's budget for Ukraine is going to drop in FY 2000, as increased funding will be provided for activities under the multi-agency Expanded Threat Reduction Initiative. The top priority for USAID assistance to Ukraine will be to support critical economic structural reforms. Other key areas will include civil society, anti-corruption, small business, and special initiatives such as global climate change, community-based programs, the Kharkiv Initiative, the Poland-America-Ukraine Cooperative Initiative (PAUCI), and combating trafficking in women. With support from USAID, Junior Achievement will teach market economics, including business basics, computer skills, ethics and gender issues, to some 4,500 Ukrainian high school students and 100 teachers. USAID is also planning to implement an expanded small and medium-sized enterprise (SME) support program in FY 2000, including a new micro-lending initiative. The Western NIS Enterprise Fund (WNISEF) will join with the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and others to establish a \$50 million small-business/micro-finance bank in Ukraine.

Under the Expanded Threat Reduction Initiative (ETRI), through programs in the NIS account and the Non-Proliferation, Antiterrorism, Demining and Related Activities (NADR) account, the U.S. will significantly expand assistance to prevent the proliferation of WMD, weapons technology and expertise in FY 2000. Increased funding for the Science and Technology Center in Ukraine and the Civilian Research and Development Foundation will help prevent proliferation of weapons expertise and redirect former Soviet weapons experts to peaceful pursuits. Support also increase to enhance export controls and border security by providing equipment and training.

UZBEKISTAN

Political and Economic Overview

Uzbekistan, which became an independent country in 1991, is structured as a parliamentary democracy, and the president consistently voices support for democratic values and market-based economic reform. In practice, however, the Government of Uzbekistan has been reluctant to undertake serious economic reform and has made little progress in promoting democracy and human rights. The official approach of gradual, incremental economic reform has been ineffective in overcoming an unwillingness to relinquish control to market forces. This has led to a series of unsuccessful policies over the past several years, the worst of which was the 1996 suspension of free convertibility of the national currency, the som. Failure to restore currency convertibility and to create attractive conditions for investors has crippled Uzbekistan's economy and has driven off international donors such as the International Monetary Fund (IMF) and World Bank.

The Government of Uzbekistan has not taken effective steps to build democracy. Despite a constitutional guarantee of freedom of speech, political opposition to the government is not permitted in practice. The December 1999 parliamentary elections and January 2000 presidential elections were not democratic, as no opposition candidates were allowed to participate. Newspapers were censored outright, and the country's 30 to 40 independent television stations practiced self-censorship or risked losing their licenses. Civil society is nevertheless developing in Turkmenistan, albeit within the limits set by the government. A new law on non-governmental organizations (NGOs) drafted with U.S. assistance was passed in August 1999, but implementing regulations have yet to be issued. The existence of more than 300 grassroots NGOs, such as artisans', lawyers' and judges' associations, demonstrates government tolerance for citizen activities in uncontroversial areas. However, in FY 1999, the Uzbek Government continued to deny registration to two independent human-rights organizations and conducted a campaign to silence their members. Authorities imprisoned two human-rights activists on fabricated charges, severely beat a third and threatened several others. Such abuses of human rights were not uncommon in Uzbekistan. In addition, the Uzbek Government holds political prisoners. Police routinely plant evidence on suspects, and beat and torture

detainees to obtain confessions. Despite a 1997 law on prison reforms, prison conditions remain poor. There have been numerous deaths in custody due to beatings and mistreatment.

In response to the explosion of five bombs in Tashkent in February, the Government of Uzbekistan cracked down against Islamist groups and pious Muslims, perceived by the government as security threats. The police detained thousands of people, often after planting narcotics, weapons, ammunition or Islamist literature on them. Many of those detained were held incommunicado and accusations of torture were not uncommon. With one exception, the trials of those arrested have been closed to international observers. Hundreds of those convicted of belonging to Islamist groups unconnected to the bombings have been sentenced to 12 to 20 years in prison. Although the pace had slowed by the end of the year, arrests of members of these Islamist groups continued.

Overview of U.S. Government Assistance

In FY 1999, the U.S. Government provided an estimated \$75.26 million in assistance to Uzbekistan, including, \$27.40 million in FREEDOM Support Act funds, a \$10 million concessional food-aid loan under USDA's P.L. 480, Title I Program, \$8.84 million in other U.S. Government funds, and \$29.01 million in U.S. Defense Department excess and privately donated humanitarian commodities. FREEDOM Support Act-funded assistance, of which USAID programs accounted for some \$17 million, was focused on the broad areas of economic restructuring, democracy and governance, energy and environment and social-sector reform. USAID activities focused on improving the tax, budget, accounting and bank supervision capabilities of the Government of Uzbekistan; supporting private enterprise development; helping to create a legal and regulatory environment conducive to free trade and investment; and promoting health-care reform and infectious disease control. The U.S. Government also provided support to Uzbekistani non-governmental organizations (NGOs) through capacity-building training and small grants, to independent media through technical assistance and seminars, and to Uzbekistan's legal profession and judicial branch mainly by supporting judges' and lawyers' associations. U.S. Government-funded assistance programs continued to achieve mixed results in Uzbekistan, primarily due to the Uzbek Government's lack of political will and failure to accept the need for reform.

Business and Economic Development Programs

USAID Accounting and Banking Reform Programs: In FY 1999, with USAID assistance, Uzbekistan adopted accounting standards based on International Accounting Standards (IAS). A new chart of accounts was submitted to the Ministry of Justice for registration. USAID modeled this accounting training and conversion activity on its successful programs in Kazakhstan and Kyrgyzstan. Uzbekistan also made some notable progress in banking-sector reform in FY 1999. Despite various constraints, improvements were made in the licensing and pre-screening of applicants who want to purchase a bank, prudential regulations were strengthened, and, most importantly, enforcement powers were increased and a problem-bank unit was created.

USAID Budget and Tax Reform Programs: Since the Uzbek Government has not made any progress in budget reform during the last four years, U.S. Government-funded assistance in this area was phased out in mid-1999, and the Uzbek Government was informed accordingly. On the other hand, USAID's tax administration assistance was highly successful in the areas of computerization and collections. Virtually all businesses and more than 2.4 million industrial taxpayers have identification numbers and are entered in the State Tax Committee's databases. USAID helped the Tax Inspectorate complete the computerization of its headquarters' operations in early 2000.

Trade and Investment Programs

Central Asian - American Enterprise Fund (CAAEF): In FY 1999, USAID continued support the CAAEF's operations in Uzbekistan. The CAAEF continued to try to sustain \$22 million in troubled equity investments in Uzbekistan, despite a lack of reliable client access to foreign exchange and severe governmental financial constraints.

USAID Support for WTO Accession: In FY 1999, USAID organized two key seminars designed to educate Uzbek officials on the benefits and requirements of accession to the World Trade Organization (WTO), and on techniques for developing WTO negotiation strategies. USAID helped the Uzbek Government's Inter-Ministerial WTO Committee respond to the questions of various WTO member-states. USAID also continued to help the Uzbek Government prepare and adopt the necessary legal and regulatory framework for WTO accession.

Training, Exchange and Educational Reform Programs

Since FY 1993, U.S. Government-funded exchange programs have brought over 1,500 Uzbekistani citizens to the United States for short-term professional or long-term academic training, including some 230 in FY 1999 alone. These programs give participants an opportunity to develop their skills and establish valuable contacts with U.S. counterparts.

USAID Training: Over 1,700 Uzbekistani citizens participated in USAID-sponsored training programs in FY 1999, roughly two-thirds of them men and one-third women. Of this total, over 40 participated in U.S.-based programs, over 30 in third-country programs and over 1,600 in in-country programs. Over 1,240 received training in the area of economic restructuring, over 400 in democratic reform and some 15 in social stabilization. Over 200 USAID-trained Finance Ministry officials now lead the Uzbekistani Government's agenda of conversion to International Accounting Standards (IAS). Following a USAID-sponsored regional conference on women's issues, family and health, conference participants formed several working groups in critical areas relating to the role of women in society. Training for health-sector policy-makers in general practice development resulted in a Health Ministry initiative to establish family group medical practices in 18 rural areas. USAID also funded training in contraceptive technology, counseling, clinical skills and infection prevention. In addition, a USAID training program on irrigation management complemented ongoing USAID technical assistance to water-users' associations throughout the country.

U.S. Information Agency (USIA) Exchanges: In FY 1999, almost 160 Uzbekistani citizens traveled to the United States on USIA exchange programs, some 125 on academic exchanges and the remaining 30 on professional exchanges. Over 75 Uzbekistanis participated in one- to two-year academic exchanges through USIA's FREEDOM Support Act (FSA) Graduate Exchange/Muskie Fellowship Program, FSA Undergraduate Program, and Future Leaders Exchange (FLEX) Program for high school students. A total of 17 Uzbekistani scholars traveled to the United States under Fulbright, Regional Scholars and Contemporary Issues Fellowships. Some 30 high school teachers and administrators traveled to the United States under USIA's Partners in Education (PIE) and Teaching Excellence Awards (TEA) programs. In addition, 20 leading Uzbekistani professionals traveled to the United States under USIA's International Visitors (IV) Program in FY 1999.

USIA University Partnership Program: In FY 1999, USIA's NIS College and University Partnership Program launched a new partnership between the Tashkent State Economics University (TSEU) and the State University of New York (SUNY) at New Paltz, which will work together to develop a new business curriculum for TSEU.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1999, USDA's Cochran Program continued to support agricultural reform in Uzbekistan, organizing short-term exchange programs for a total of 20 Uzbek agriculturists.

U.S. Department of Commerce – Special American Business Internship Training (SABIT) Program: In FY 1999, the SABIT Program provided internships for nine Uzbek participants. (Please see the U.S. Commerce Department - SABIT section in Part III of this report.)

Democracy Programs

Democracy Fund Small-Grants Program: In FY 1999, the U.S. Embassy's Democracy Commission awarded 13 small grants totaling approximately \$100,000 to local NGOs working in such areas as human rights, women's rights, and business development.

USAID Democracy Programs: In FY 1999, USAID provided increased support for the development of an active civil society in Uzbekistan. The Uzbek Government used the perceived threat of Islamic extremism to justify infringements on the media and political processes, restricting independent media and free dissemination of information, particularly at the national level. As part of its effort to help Uzbekistan's media survive and function under these difficult conditions, USAID supported broadcasts by independent television stations on community-level issues. A number of these broadcasts prompted local government action to resolve community problems. In FY 1999, the U.S. Government curtailed election-related assistance to the Government of Uzbekistan because of the latter's lack of commitment to electoral reform or to genuinely competitive elections. At the same time, however, USAID made progress in supporting the development of the country's NGO sector, especially in areas outside the capital. NGOs became stronger and more assertive in Uzbekistan in FY 1999, and many of them embraced local advocacy as part of their agenda and were interfacing more with local government officials. Similarly, at the national level, NGOs and parliamentarians engaged in a dialogue on NGO-related legislation; as a result, a draft law that included the input of NGOs was passed and signed into law.

U.S. Department of State – Anti-Crime Training and Technical Assistance (ACTTA) Program: In FY 1999, the U.S. Government provided approximately \$2.0 million in law enforcement training programs for Uzbekistan, whose objectives were to combat the growing regional threats of narcotics trafficking and organized crime while promoting the rule of law and human rights. During FY 1999, more than 200 officers from the Ministry of Internal Affairs, the Customs Committee, the Border Guards and the National Security Service received training under the ACTTA Program, which is coordinated by the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL). Highlights included a long-term forensics laboratory development program; a six-month police academy development program; and a variety of training programs in such topics as organized crime, narcotics interdiction and post-blast investigation. In addition, the Tashkent Municipal Police Department participated in an extended INL-sponsored community policing exchange with the Police Department of the City of San Antonio, Texas. Uzbek law enforcement officials also actively participated in training programs at the INL-supported International Law Enforcement Academy (ILEA) in Budapest, Hungary. In FY 1999, 15 Uzbek officers graduated from ILEA's eight-week mid-level management program, and the Government of Uzbekistan actively participated in ILEA's curriculum development, retraining and needs-assessment programs.

U.S. Department of Justice (DOJ) – Criminal Justice Programs: In FY 1999, DOJ's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) conducted an assessment of Uzbekistan's legal system. Through a grant to the American Bar Association's Central and East European Law Initiative (ABA/CEELI), a DOJ/CEELI criminal law liaison began working with Uzbekistan's procuracy and Ministry of Justice on legislative issues. The DOJ/CEELI Program also conducted training for the procuracy in a variety of criminal justice-related areas. A regional training program held in Tashkent on the procedural requirements of reducing the number of pre-trial detainees resulted in the drafting and adoption of a new bail law.

U.S. Department of State – Anti-Terrorism Assistance: Following the February 16 bombings in Tashkent, the State Department's Office of the Coordinator for Counterterrorism and Bureau for Diplomatic Security conducted an assessment of Uzbekistan's anti-terrorist capabilities. As a follow-up to the assessment, officials from the Ministry of Internal Affairs and National Security Service attended a course on explosive incident countermeasures and one on the role of police in a crisis. In addition, an assessment of Uzbekistan's bomb-sniffing dog program was initiated, and senior officials from the Ministry of Internal Affairs and the National Security Service represented the Government of Uzbekistan at a State Department-sponsored international counter-terrorism conference held in Washington, D.C., in June 1999.

Security Programs

The primary objectives of the U.S. Government's security programs in Uzbekistan are to foster democracy, civilian control of the military, the rule of law and human rights, to promote stability and strengthen and expand regional security cooperation through the Central Asian Peacekeeping Battalion (CENTRASBAT), and to deter political and military adventurism. This assistance has been provided to Uzbekistan primarily through the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program and the Warsaw Initiative Fund.

DoD Cooperative Threat Reduction (CTR or Nunn-Lugar) Program: In FY 1999, the CTR program allocated \$6 million to a project to demilitarize the former chemical weapons facility in Nukus and \$1.39 million to the CTR Defense and Military Contacts Program, which sponsored a total of 49 events for Uzbekistan in FY 1999—35 outside of Uzbekistan and 14 in-country.

Warsaw Initiative Programs: In FY 1999, the U.S. Department of State provided Uzbekistan \$1.65 million in Foreign Military Financing (FMF) for Uzbekistan and \$526,000 for training under the International Military Education and Training (IMET) Program. In addition, \$485,000 in DoD Warsaw Initiative funding was used to support Uzbekistan's participation in NATO Partnership for Peace (PFP) exercises, eighty percent of which was funded by NATO and twenty percent by the U.S. Government. Uzbekistan sent a platoon to the exercise Cooperative Best Effort, and participated fully in the exercise Combined Endeavor. Uzbekistani representatives also participated as observers in several other PFP exercises.

U.S. Department of State – Nonproliferation Programs: In FY 1999, Uzbek enforcement agencies (primarily the Customs Committee, Border Guards and the Ministry of Foreign Economic Affairs) actively participated in various U.S. Government-funded counter-proliferation programs. Following an interagency assessment conducted in December 1999, the Customs Committee and the Border Guards participated in a two-week training session in large port operations, which was conducted in conjunction with the delivery of fiber-optic scopes, laser range-finders and nuclear detection pagers. In addition, in June 1999, the Customs Committee received a portable x-ray van for use in inspecting cargo and large packages.

Interagency Export Control Programs: In FY 1999, the U.S. Department of Commerce led an interagency effort to develop Uzbekistan's import and export controls. After representatives of Uzbekistan's Customs Committee and the Ministry of Foreign Affairs completed a draft import-export control law, a U.S. delegation comprised of representatives from the Department of Commerce, Federal Bureau of Investigation (FBI), U.S. Customs Service and the U.S. Department of Defense traveled to Tashkent in September to review the draft legislation. In addition, the Uzbek Government sent representatives to several regional and international conferences on controlling the proliferation of weapons of mass destruction and their components.

Energy and Environmental Programs

USAID Energy-Sector Programs: In FY 1999, USAID's efforts in this area were focused on developing an effective policy framework for an environmentally sound, regionally efficient, and market-oriented energy sector, which will also help reduce economic and political tensions generated by cross-border environmental disputes. In FY 1999, the Central Asian countries signed an agreement for parallel operation and frequency regulation of the regional electricity grid. In addition, Uzbekistan's Cabinet of Ministers adopted a new petroleum law and the government signed a protocol with USAID to draft a plan to privatize the country's state-owned oil and gas sector. If the government accepts the draft plan, USAID will provide implementation-related assistance. In addition, the U.S. Energy Association initiated a USAID-funded energy partnership between Uzbekistan's Dispatch Center and the New York Energy Pool.

USAID Environmental Programs: In FY 1999, USAID facilitated the development of a strategy for the Uzbek Government's participation in the United Nations Framework Convention on Climate Change, which will be announced at the Fifth Conference of the Parties.

USAID Water-Management Programs: Representatives from Uzbekistan participated in several USAID technical assistance activities related to the development of a regional water-use optimization model for the Syr Darya Basin. Uzbek officials can now use computer modeling to set water-quality standards and manage water use locally through user groups. However, several key Uzbek Government water officials were reluctant to participate in USAID's regional activities with the Central Asian Economic Community, thus hampering USAID's efforts to facilitate several much-needed regional water-use agreements.

Social-Sector and Humanitarian Assistance

USAID Health-Care Reform Programs: In FY 1999, USAID continued to focus on the development of an efficient health-care model in Uzbekistan. USAID sought to build a policy consensus and legal framework for health-care reforms, provide technical assistance to develop and implement primary health care interventions, provide training, and inform the public about the impact of the health-care reforms on their daily lives. USAID also provided legal analysis and assistance in drafting legislation supporting health reform. A USAID-funded health partnership with the Ambulance Authority of Richmond, Virginia, helped develop an emergency training center at the Tashkent Medical Institute. A USAID-funded infectious disease control program helped develop a reference laboratory for hepatitis and engaged in a policy dialogue on the importance anti-hepatitis interventions. A tuberculosis treatment and prevention program is currently in the preparation phase in five pilot regions. In addition, USAID's efforts to strengthen local health-care capacity contributed to the establishment of community-based primary health care centers in three demonstration rayons (counties). All of these independent primary-care practices will participate in the implementation of new payment methods based on a "capitated" rate (a set amount per enrolled client). USAID sponsored clinical training for approximately 70 family physicians and nurses on topics such as reproductive health, acute respiratory infection, and first aid. USAID's Contraceptive Social Marketing Program was adversely affected by currency-conversion problems, and as a result, changed its focus to community-based reproductive health education.

U.S. Department of Agriculture (USDA) – Food Aid: In FY 1999, USDA allocated \$12.38 million for the provision of food commodities to Uzbekistan, including a \$10 million 30-year concessional loan under USDA's P.L. 480, Title I Program, which Uzbekistan used to import 33,350 metric tons of U.S. soybeans. Under USDA's GSM-102 export credit guarantee program, Uzbekistan used a two-year concessional loan to import 90,000 tons of U.S. soybeans worth \$20 million. As part of the American Red Cross's (ARC) Aral Sea Regional Program, USDA provided over \$750,000 in commodities through its Section 416(b) Program, which was complemented by the ARC's direct distribution of 4,043 metric tons of commodities under USDA's Food for Progress Program, for a total value of \$2.38 million.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. State Department's Operation Provide Hope has provided almost \$87 million in humanitarian assistance to Uzbekistan. In FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS expended \$1.46 million in transportation and grant funds to deliver \$29.01 million in targeted humanitarian assistance to the people of Uzbekistan. This assistance, which consisted of privately donated high-value pharmaceuticals, other donated commodities and U.S. Defense Department excess property, was provided primarily through the following U.S. PVOs: Heart-to-Heart/Physicians with Heart, Americares, and Counterpart International.

Cross-Sectoral Programs

Peace Corps

In FY 1999, the Peace Corps continued to provide assistance to Uzbekistan in the fields of English-language education and business education and initiated a new project in the health sector. The number of Peace Corps volunteers (PCVs) in Uzbekistan grew from approximately 55 in the beginning of FY 1999 to approximately 105 at the end of the fiscal year.

- **English-Language Education:** The objective of this program is to increase the availability, quality and resources of English-language programs and information in Uzbekistan for students and education professionals. PCVs taught students in the classroom and also interacted with them informally in English centers and clubs. PCVs helped implement group activities that required students to speak English, work together to solve problems and think critically about the results. PCVs spent considerable time with their Uzbekistani counterparts, developing lesson plans and organizing training activities. PCVs and their counterparts also worked together to organize teacher enhancement workshops. PCVs participated in summer teacher workshops in which they discussed communicative methodology, teaching curricula and student motivation, and were also involved in community development projects such as English clubs, dance clubs, and sports clubs. In FY 1999, PCVs taught over 2,800 university and secondary school students in Uzbekistan, and worked with over 175 secondary-school and university teachers. PCVs' secondary projects included the introduction of little league baseball to over 241 students, the initiation of English-language television programs, initiation of TOEFL (Teaching of English as a Foreign Language) and English clubs, as well as alumni clubs for participants in U.S. Government-funded exchange programs. In late FY 1999, the Peace Corps also began working in the area of elementary education, in response to a request by the Minister of Public Education for assistance in developing a national curriculum for elementary education. Schools in Uzbekistan are now implementing English-language instruction from the first grade; however, teachers are poorly trained and there is no curriculum for elementary English education. The Peace Corps has been given a unique opportunity to be involved in the development of the national curriculum and a strategy for training teachers in elementary education. The first group of elementary education PCVs began working in Uzbekistan at the end of October 1999, and a senior Peace Corps staff member is working closely with the Ministry to ensure that this project achieves its goals.
- **Business Education:** The purpose of this program is to educate Uzbekistani citizens in market economics and basic business skills, and to help build small-enterprise capacity by providing future and current entrepreneurs with the business skills necessary to operate profitably in a free-market economy. The program is part of the Uzbek Government's broader effort to address the challenges of developing a market economy and providing economic and business education in Uzbekistan. Under this program, PCVs seek to increase the knowledge and skills of students, teachers and managers of small enterprises by focusing on the transfer of basic business skills. In FY 1999, business education PCVs trained teachers, conducted seminars, and taught at retraining institutes, business centers, business schools and universities, reaching approximately 2,200 students, 160 teachers and over 250 entrepreneurs. PCVs provided students and entrepreneurs with skills, concepts and information in a wide range of areas, including marketing, economics, Junior Achievement, law and legal institutions, banking, writing grant proposals and business letters, aspects of U.S. business, international economics, basic economics concepts, applied economics, conversational English, business English and teaching methodologies.
- **Health Program:** The Peace Corps began working in the health field in Uzbekistan in March 1999, helping to strengthen the Ministry of Health's program to provide primary health-care services to Uzbekistan's rural population and thereby reduce morbidity and mortality, particularly due to easily preventable or treatable illnesses. The health project's three main objectives are as follows: (1) to improve the health status of women and children in rural communities through prevention and health promotion efforts, (2) to improve the management capacity of staff at rural clinics; and (3) to improve the English-language abilities of physicians in Uzbekistan. The latter goal is important because most current medical literature is written in English. In conjunction with Abt Associates, a USAID contractor, PCVs helped train Uzbek health managers in management and financial techniques, and began developing a policy and pro-

cedural manual for use by rural clinics in implementing new management and financial procedures. The manual will cover topics such as health-care reform in Uzbekistan, strategic planning and general administration of health-care facilities, accounting, financing, budgeting, legal issues, and information systems. PCVs also worked with doctors and nurses to provide educational seminars on anemia, diarrhea, reproductive health, tuberculosis and acute respiratory diseases. Target audiences included school children and women of reproductive age. As of June 1999, these seminars had reached over 2,000 individuals.

Eurasia Foundation: In FY 1999, the Eurasia Foundation awarded some 25 grants totaling \$750,000 to Uzbekistani NGOs in the areas of civil society, public administration and private-enterprise development. (Please see Eurasia Foundation section in Part III of this report.)

Preview of FY 2000 Programs

In FY 2000, the U.S. Government will continue to provide assistance to Uzbekistan in the areas of economic reform, energy and environment, health-care reform, and democratic transition. However, the U.S. Government will continue to shift the assistance portfolio away from non-performing activities such as macro-economic reform and election support towards areas of greater opportunity, such as accounting reform, health-care reform and civil-society development. A recent presidential decree on reforms suggests possible increased interest by the Uzbek Government in receiving technical assistance. However, whether or not the government will be genuinely committed to reform remains to be seen. While the decision to create a formal regional initiative in Uzbekistan has not been made, the U.S. Government will seek to concentrate assistance activities in the Ferghana and Nukus Oblasts (Regions).

In FY 2000, USAID will continue to phase out fiscal-reform activities and introduce new local-level efforts to promote enterprises and provide much-needed business and economics education. The U.S. Government will continue to explore ways to increase the effectiveness of the Central Asian - American Enterprise Fund (CAAEF), given the currency non-convertibility issue. USAID's regional energy and environment efforts will continue, and USAID will consider a public-education component to raise the consciousness of government officials and citizens on the necessity of market-oriented pricing, energy regulations and energy conservation and efficiency awareness. USAID will seek to promote improved water usage and reduce the environmental effects of Caspian Sea oil development.

USAID will continue to expand its NGO development activities and to promote civic education for youth in close collaboration with the U.S. Embassy's Office of Public Diplomacy and the Peace Corps. USAID's democracy portfolio will emphasize NGO coordination with mahallas (neighborhood committees) and an extensive women's legal rights initiative. Due to staffing constraints and concerns over government policies, expansion of USAID assistance in the health sector has been slow, although USAID is expanding dialogue, capacity and activities in this sector. USAID will continue to expand the family group practice model, and infectious disease control, specifically tuberculosis, will be a large component of USAID's overall health portfolio. Two new USAID-funded health partnerships will be established. In addition, USAID training programs will continue to support reforms in all sectors.

In FY 2000, under the multi-agency Expanded Threat Reduction Initiative (ETRI) implemented by the U.S. Departments of Defense, Energy and State, the U.S. Government will provide modest assistance to Uzbekistan to prevent the proliferation of weapons of mass destruction (WMD), weapons technology and expertise. This support will focus on enhancing Uzbekistan's export controls and border security by providing equipment and training.

III. ASSESSMENTS OF MAJOR PROGRAMS

The following section describes the objectives of the major regional U.S. Government-funded NIS assistance programs by agency, summarizes their achievements and assesses their effectiveness.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) – BUREAU FOR EUROPE AND EURASIA (E&E)

USAID's democratic reform, economic restructuring, and social transition programs seek to help the NIS countries build institutional capacity and establish sustainable and mutually beneficial partnerships with the United States, other regions of the world, and amongst themselves. At this stage of their transition, USAID is helping the NIS countries improve their capacity to manage their own political and economic systems, facilitate private enterprise development, increase employment opportunities, and reduce poverty.

USAID is seeking to promote the fundamental values of democratic governance and citizen participation, and the development of democratic institutions in the NIS countries. USAID-funded assistance is focused on strengthening the rule of law, fighting corruption, strengthening independent media, enhancing democratic elections, and increasing the involvement of non-governmental organizations (NGOs), communities and local governments in political and economic decision-making.

USAID is increasing its social-sector assistance in the region, as the transition to democracy and free-market economics has placed heavy burdens on many segments of the populations of the NIS countries. While building robust market-based economies remains the best long-term strategy for improving living standards in the region, the mitigation of negative social trends merits assistance in the medium term. Improved education, health care and social protection systems are needed to sustain economic restructuring and democratic reform. In addition, social transition programs are serving U.S. foreign policy objectives by promoting regional stability and reducing transnational health risks.

The USAID-funded assistance activities described in the 12 country assessments in Part II of this report fit into the E&E Bureau's strategic framework for the NIS, which consists of 11 strategic objectives divided into four broad strategic assistance areas:

STRATEGIC ASSISTANCE AREA 1: ECONOMIC RESTRUCTURING

- 1.1 Privatization: The increased transfer of state-owned assets to the private sector
- 1.2 Fiscal Reform: Increased soundness of fiscal policies and fiscal management practices
- 1.3 Strengthening Private Enterprises: Accelerated development and growth of private enterprises
- 1.4 Financial Sector Reform: A more competitive and market-responsive private financial sector
- 1.5 Sustainable Energy Systems: A more economically sound and environmentally sustainable energy system
- 1.6 Environmental Management: Increased environmental management capacity to support sustainable economic growth

STRATEGIC ASSISTANCE AREA 2: DEMOCRATIC TRANSITION

- 2.1 Citizen Participation: Increased, better-informed citizen participation in political and economic decision-making
- 2.2 Rule of Law: Legal systems that better support democratic processes and market reforms
- 2.3 Local Government: More effective, responsible, and accountable local government

STRATEGIC ASSISTANCE AREA 3: SOCIAL TRANSITION

- 3.1 Reduced human suffering and crisis impact
- 3.2 Sustainable Social Services: Improved sustainability of health and other social benefits and services

STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS AND SPECIAL INITIATIVES

Descriptions of these strategic objectives, as well as summaries of the progress achieved under each of them in FY 1999, are provided below:

STRATEGIC ASSISTANCE AREA 1: ECONOMIC RESTRUCTURING

Goal: To foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed

STRATEGIC OBJECTIVE 1.1: The increased transfer of state-owned assets to the private sector

This objective involves USAID support for the transfer of public enterprises and other state-owned assets (e.g., land, housing stock, financial institutions and utilities) to private ownership and management. Areas of emphasis include the following:

- policy, legislative and regulatory actions to facilitate and provide confidence in privatization;
- technical assistance, training, and policy advice to strengthen local institutional capabilities to manage privatization programs;
- assistance in organizing and financing privatization arrangements (e.g., mass privatization, auctions, competitive tenders and employee ownership);
- assistance in providing public education on privatization; and
- post-privatization assistance as part of a continuum of privatization assistance for a specific state-owned enterprises.

Progress Made In FY 1999

After nearly eight years of USAID support for privatization in the NIS, the vast majority of enterprises in the region have been transferred from state ownership to some form of private ownership. FY 1999 witnessed continued forward movement in this area. The focus of USAID's privatization assistance has shifted from increasing the *quantity* of enterprises and assets privatized to increasing the *quality* of privatization and post-privatization support for restructuring. As the initial phase of mass privatization programs nears completion in most of the NIS countries, increased emphasis is being placed on the second phase of market reform, which includes improving shareholders' rights and corporate governance, ensuring that effective pledge and collateral laws give businesses sufficient access to capital; creating a business environment conducive to investments by adopting and implementing international accounting and auditing standards, privatizing urban land, and decollectivizing the agriculture and energy sectors.

Completed Work in Mass and Small-Scale Privatization

By the end of FY 1999, Moldova, Georgia and Armenia had essentially completed their mass privatization programs, but additional efforts are still needed.

Moldova: Moldova has completed its mass privatization program, with more than 2,200 small, medium-sized and large enterprises having been totally or partially privatized. In FY 1999, the Government of Moldova continued to make progress, as the parliament passed significant legislation to continue the privatization of land, telecommunications, grain storage facilities and wineries. Land in Moldova is now fully tradable, and a national land registry exists for land titling and ownership registration. USAID-funded advisors helped the Moldovan Government complete the break-up of 282 collective farms, resulting in the issuance of 634,000 legally recognized individual land titles to 233,000 former employees of collective farms. In addition, over 180,000 land titles have been issued to 56,300 individual farmers. With continued USAID support, Moldova is scheduled to complete its national farm privatization program in December 2000, by which point, more than 3.5 million individual land titles will have been issued.

Georgia: Privatization is nearing completion in Georgia. Small-scale privatization has been completed, with 12,860 small enterprises having been sold. Medium-sized and large enterprise (MLE) privatization is nearly complete, with about 87 percent of 1,133 MLEs (enterprises with 250 or more employees) having been privatized. The remaining state enterprises are mainly energy and oil and gas companies, which are slated for privatization, and some 30 larger enterprises that are scheduled for privatization by the end of February 2000. Privatization of rural land has been completed, but additional work is needed to complete titling and registration. Urban land privatization was begun in late 1998 and is moving forward

quickly. USAID was instrumental in the privatization of Georgia's energy distribution company Telasi, and is working with the World Bank to support the privatization of Georgia's telecommunications sector. A USAID-funded project is helping the Ministry of State Property Management conclude the privatization of MLEs. The USAID Land Privatization project has been instrumental in facilitating the passage of legislation on urban (enterprise) land privatization and in supporting titling and registration of rural land.

Armenia: Armenia has made significant accomplishments in the area of privatization, although it still has a way to go, and the pace of privatization has slowed. Small-scale privatization is essentially complete, with 6,769 businesses having been privatized. MLE privatization is estimated to be 75-percent complete, with 1,492 of 1,967 MLEs having been sold. Armenia's telecommunications sector was privatized in 1997-98. Privatization slowed in early FY 1999, with the only significant sale being that of the Hotel Yerevan. Most remaining state-owned enterprises have failed to attract investor interest at auctions or tenders. However, the privatization law does not enable liquidation of these firms. The privatization of Armenia's energy distribution company is proposed for FY 2000.

Remaining Issues

The quality of privatized enterprises continues to be a problem for most NIS countries, with a significant proportion of large enterprises sold to insiders (i.e., management or employees) in many countries, and the state retaining a controlling share of many supposedly privatized firms. Corporate governance is seriously hampered by state and insider control over newly privatized enterprises, which often prevents them from being restructured, since the state, enterprise employees and management have a common interest in retaining current employees and maintaining the status quo. State control over private holding companies in the energy or agricultural sectors tends to create monopolistic power, and constrains the growth of enterprises that depend on these sectors as suppliers of inputs. Shareholders' rights and corporate governance are concepts that are still not well understood in the NIS. USAID will need to continue to support the passage of legislation to ensure protection and strength of these market institutions in order to guarantee that the positive benefits from privatization will be fully realized.

As USAID moves closer to completing all activities under this strategic objective, it is clear that successful privatization requires more than simply transferring property from state to private hands. The transfer of property is merely a first step down a long path of creating the rules, institutions and environment necessary for a market economy. For several more years, USAID will need to remain engaged in issues concerning quality of privatization and post-privatization assistance, especially in restructuring enterprises, lowering investment and trade barriers, and creating business-friendly environments, in order to guarantee the sustainability of the reforms that it has helped set in motion.

Major Contractors and Grantees

Major implementing partners under this strategic objective include the Carana Corporation, International Business and Technical Consultants, Booz-Allen and Hamilton, Price Waterhouse Coopers, RONCO, Sibley International, Wilbur Smith and Associates, the Recovery Group, and the East-West Management Institute.

STRATEGIC OBJECTIVE 1.2: Increased soundness of fiscal policies and fiscal management practices

This objective seeks to put in place fiscal policies and fiscal management practices that are conducive to macro-economic stability, increased private-sector investment, sustained economic growth, and sustainable social programs.

The principal fiscal reform areas are tax policy, tax administration, budget formulation and execution, intergovernmental fiscal relations and pension reform. Improvements in these areas should lead to macro-economic improvements such as growth in GDP, low inflation, reduced deficits, and manageable debt. Specific objectives include the following:

- modernization of tax codes and administration to achieve fairness, simplicity and efficiency in revenue collection;
- development of performance-based public-sector budgets, with improved execution and transparency;
- rationalized sharing of revenue and expenditures between central, regional and local governments; and
- a modern and sustainable pension system.

Progress Made in FY 1999

Armenia: The year 1999 was one of progress in economic reform, with elections leading to the formation of a reform-minded government, an approach that was retained after the tragic October 1999 assassination of the prime minister and parliamentary leaders. Growth in real GDP was expected to be higher than the projected five percent, the projected budget deficit is less than the target of 5.9 percent, and inflation is less than one percent. USAID assistance led to substantial progress towards preparing credible annual revenue forecasts and developing realistic budgets, including plans to begin producing three-year revenue and expenditure forecasts. Also with USAID assistance, the Armenian Government has prepared improvements to the tax code. Under a USAID-funded pilot program, two tax inspectorates are in the process of computerization and are implementing an audit selection process. All companies are now required to use International Accounting Standards (IAS).

Kazakhstan: On balance, 1999 was a year of macro-economic progress in Kazakhstan. Although the overall economic situation deteriorated early in the year, real economic growth appeared to have begun by mid-year. Statistics on industrial production show a continuous increase over this period, as do tax revenues. In spite of currency depreciation of approximately 70 percent, annual inflation remained moderate. Reasons for the improvement include a recovery in commodity prices, sound monetary policy, and government discipline in all fiscal areas. There were genuine improvements in tax policy and in tax administration, producing revenue collection that greatly outstripped economic growth. Increased official disapproval and publicity yielded progress in containing corruption. USAID assistance has helped Kazakhstan complete its first year with a fully modernized pension system. The country's FY 2000 budget uses the program budgeting approach, is based on conservative assumptions, and includes three-year revenue and expenditure forecasts. All off-budget programs and funds were moved into a consolidated state budget. Progress in intergovernmental finance included the fixing of tax-sharing rates for all regions of the country and clarification of expenditure responsibilities between central and local governments. Although not perfect, laws were enacted providing for local borrowing (within limits), and a draft law on subventions and withdrawals was prepared.

Other Central Asian Republics: With USAID assistance, Kyrgyzstan has begun program budgeting and public sector accounting, and has started to focus on issues of intergovernmental finance. Fiscal reform efforts also continued in Turkmenistan; however, USAID discontinued its technical assistance in these areas in Uzbekistan due to a lack of commitment to reform.

Georgia: In FY 1999, the country's macroeconomic situation was characterized by a stable currency and a large informal sector, but also significant revenue mobilization problems and continuing corruption. USAID assistance facilitated some progress in tax administration in 1999, specifically the implementation of an excise stamp regime on cigarettes and alcohol. Despite continuing tax collection problems, excise collections on cigarettes were up 400 percent over the previous year. Customs collections at the border also improved, along with import and sale controls on petrol, diesel and related products. Also with USAID assistance, Georgia's 2000 budget shows sensible improvements to budget accountability and transparency. On the other hand, there has been no reduction in public-sector arrears, the government is still overstaffed, and staff are underpaid.

Moldova: Moldova's economy, like those of the other NIS countries, suffered from the after-effects of the Russian financial crisis, which in the case of Moldova resulted in high inflation and a five-percent reduction in GDP. In particular, Moldova's industrial production and exports declined severely. In 1999, lending by international donors resumed in Moldova after a two-year hiatus. Although Moldova's actual debt levels declined in 1999, the contraction of the country's economy led to an increase in its debt burden, which in turn led the Moldovan Government to focus on improving its debt management, with USAID assistance. While the government's budget process is now sound, budgets are still unrealistic and characterized by high spending on social services. USAID has also provided important tax administration assistance. Moldova should have a complete tax code enacted soon, and tax collections have improved, through changes in laws and improvements in administration, including the establishment of border units. Other progress in tax administration included a USAID-supported pilot project on managing tax arrears and the repeal of an undesirable collection law that allowed the tax service to freeze bank accounts arbitrarily.

Russia: The overall macro-economic situation in Russia was more positive in 1999 than had been anticipated. The decline in Russia's GDP and the devaluation of the Russian ruble was not as steep and inflation was lower than expected, and exports increased significantly, due in part to the rise in world oil prices. USAID-supported improvements in tax policy and administration included the flattening of personal income tax brackets and the introduction of a 30-percent ceiling. Russia's value-added tax now brings caterers and retailers into the credit invoice system, and extends value-added tax crediting to

construction inputs. The Ministry of Finance has increased its capacity to conduct fiscal analysis by using analytical models and has produced estimates to support budget legislation. Amendments to the general part of the tax code have increased the effectiveness of tax administration, including improvements to the audit process. Technical amendments have brought the general portion into compliance with the civil code. USAID assistance in the area of intergovernmental finance contributed to a new transfer formula to make the budgetary relationship between the federal and regional levels more transparent, efficient and objective; the Russian Government plans further refinements in this area in the future. With the help of a USAID-funded pilot program, five oblasts (regions) changed their inter-budgetary relations with municipalities; as a result, their draft FY 2000 budgets featured a revised revenue-sharing approach and increased transparency, making the budget process more stable and predictable. This in turn created enhanced opportunities for public and private direct investment. In addition, federal legislation was drafted on the development of fiscal cadastres, which are necessary to expand the use of the property tax beyond its current experimental status.

Ukraine: A new tax code, developed with USAID assistance, has been submitted to the parliament and, with additional improvements, has the potential to result in real progress in the area of tax policy. However, there is also a potential for backsliding if a competing draft tax code is adopted that replaces the value-added tax and enterprise profits tax with a turnover tax. USAID helped establish a Tax Policy Office in the Ministry of Finance; although in its beginning stages, the office's mission is to place in one ministry the primary responsibility for developing and assessing the economic impact of tax laws and regulations. USAID assistance also contributed to a comprehensive modernization program for tax administration that includes functional reorganization at all levels and computerized processes for registration, collection, auditing and enforcement. Improved auditing procedures and increased reliance on taxpayer education and taxpayer services are expected to encourage voluntary compliance. International Accounting Standards will be introduced in January 2000. USAID assistance also facilitated the development of a more realistic, detailed and transparent FY 2000 Ukrainian Government budget proposal, which includes comparisons with the prior year's approved and actual figures, although it includes some questionable privatization revenues as well. A Fiscal Analysis Office is working closely with the parliament and has won wide acceptance for its publications analyzing budget execution. As a result, this year's parliamentary budget resolution took a more responsible approach to expenditure and revenue recommendations, although there remains considerable room for improvement. USAID efforts in the intergovernmental finance area resulted in significant preparatory work on the development of fiscal databases for regional and local governments, proposals for formula-based transfers from the national budget, and legislative proposals covering intergovernmental finance (which have not yet been adopted). Preliminary work has been done on implementing a property tax. In the area of pension reform, laws to create a three-pillar pension system were drafted with USAID assistance and should be presented to the parliament in early 2000. Progress in pension reform also included an increased capacity for actuarial forecasting and the development of unique personal identification numbers for tracking individual contributions.

Major Contractors and Grantees

Georgia State University is the contractor in Russia under this strategic objective, and the Barents Group is the major contractor in the other NIS countries. In Ukraine, the Harvard Institute for International Development (HIID) and the Rand Corporation are additional contractors. Close coordination between the U.S. Treasury Department's Office of Technical Assistance, USAID's E&E Bureau in Washington, and USAID's field missions ensures productive collaboration and avoids overlap or duplication of effort.

STRATEGIC OBJECTIVE 1.3: Accelerated development and growth of private enterprises

This objective encompasses the policy reforms, legislation and regulatory actions necessary to create an enabling environment for private enterprise. It also emphasizes assistance to individual enterprises, with the goal of improving their productivity and competitiveness, and the development of business service institutions that will continue to support the growth of private firms. Micro-level assistance is directed at broad-based improvement of business practices in such areas as planning, management, production, marketing, accounting and resource mobilization. Representative policy-reform, legislative and regulatory activities include the following:

- developing commercial law and associated regulatory procedures on such topics as formation of corporations and partnerships, contracts and bankruptcy;
- promoting the protection of land ownership and intellectual property rights;
- promoting trade-enhancing improvements in customs administration and tariff reform;
- promoting simplified laws and regulations on foreign investment;
- promoting competition, control of monopolies, and protection of consumer rights;

- helping to establish the legal framework and conditions for a private housing market; and
- helping to remove environment-related barriers to investment, by promoting a greater reliance on market-based, incentive-oriented environmental management policies, use of environmental audits and government indemnification to reduce new-investor liability risks, and simplified environmental compliance procedures.

Assistance to firms may be provided directly or channeled through business service organizations. Such assistance includes the following:

- establishing and strengthening business development centers, producer and trade associations, small-business incubator facilities, management consulting and training organizations, etc.;
- facilitating small and medium-sized enterprise development;
- technical assistance, training and equipment for improved agricultural production, processing and marketing, including farmer-to-farmer assistance;
- enterprise fund assistance provided directly to firms, including equity investments, credit, investment insurance, etc.;
- Eurasia Foundation small grants in support of business education, management training, agribusiness promotion, small and medium-sized enterprise development, defense conversion, etc.
- strengthening the capabilities of private land developers, housing contractors, and realtors;
- assistance for condominium development and management; and
- assistance to individual firms in the areas of environmental audits, cost-effective compliance with environmental regulations, and waste recycling.

Progress Made in FY 1999

This strategic objective has the broadest scope of any of USAID's strategic objectives for the NIS, with activities in all of the NIS countries except Belarus, where USAID is supporting private enterprise development activities under its cross-cutting initiatives. (Please see the Belarus country assessment in Part II of this report.) This strategic objective includes fostering the policy reforms, legislation and regulatory actions necessary to create an enabling environment for private enterprise; providing assistance, including finance capital, to enterprises to help them improve their productivity and competitiveness; and creating and supporting indigenous organizations that furnish business services.

Policy, Legal and Regulatory Reform Programs

In FY 1999, there were widespread variations in rates of progress among those NIS countries in which USAID was working on commercial legal and institutional reform. While overall progress has been made in strengthening the commercial law environment throughout the region, newly enacted laws are in many cases poorly implemented and unevenly enforced. This implementation and enforcement gap has major ramifications: it deters would-be entrepreneurs and foreign enterprises from making investments in the NIS economies. For example, Ukraine has a well-regarded legal framework to encourage foreign investment, but comes in last in the NIS in terms of per capita foreign direct investment due to inconsistent interpretation of laws, haphazard enforcement of judicial decisions, and corruption—all of which are problems that exist to one degree or another in the other NIS countries.

Central Asia: FY 1999 saw increasing differentiation among the Central Asian countries in the area of commercial legal and institutional reform. A commercial law framework is largely in place in Kazakhstan and Kyrgyzstan. In Kyrgyzstan, this includes firm constitutional and legal bases, both enacted during FY 1999, for private land ownership. These countries now need to move forward with the much more difficult process of institutional development to turn the legal framework into reality; Kyrgyzstan seems willing, if not necessarily prepared, to do so. Tajikistan only now seems ready to begin commercial legal and institutional reform, which it demonstrated by enacting a new civil code in FY 1999, as well as by beginning to develop a new, constitutionally mandated Council of Justice that will, among other things, adjudicate commercial cases. In contrast, Uzbekistan and Turkmenistan provide little encouragement to private commercial activity, thus limiting the demand for commercial legal and institutional reform, which has been limited to the adoption of measures required for international trade.

Georgia: In FY 1999, Georgia made steady progress in this area. Notably, it adopted the laws and regulations needed for accession to the World Trade Organization (WTO), although additional work needs to be done in a few key areas, such as the government procurement law and the equalization of tax rates on domestic and imported cigarettes. As of January 2000, all that was needed for Georgia to be able to accede to the WTO was formal ratification by the Georgian parliament. Also

in FY 1999, the Georgian parliament passed legislation requiring all joint-stock companies to implement international accounting standards (IAS) by January 1, 2000.

Armenia: Armenia adopted a new civil code in January 1999, establishing a legal framework for property rights, contract enforcement and banking activities. Use of IAS was mandated for certain commercial sectors and will be required for all enterprises by 2002. A new customs code, which is expected to pass parliament in early 2000, will facilitate trade liberalization and boost Armenia's drive to accede to the WTO.

Russia: Fundamental problems with the country's commercial law framework persisted, and perhaps even worsened, in Russia in FY 1999. For example, following the financial crisis stemming from the August 1998 ruble devaluation, Russian Government authorities appeared to favor certain politically connected business interests by propping up select insolvent banks at the expense of depositors and taxpayers. The numerous instances of corporate governance abuse, largely consisting of asset stripping that defrauds foreign investors and minority shareholders, were also causes for concern. The picture is not entirely bleak, however, given the enactment of new laws on insolvency of financial institutions and protection of securities market investors. Also positive is the emergence of watchdog groups that are creating an indigenous force for observance of corporate governance. Notably, responsibility for competition policy was given to a new Ministry for Anti-Monopoly Policy and Support of Entrepreneurship, which has the legal authority to promote open, competitive markets in such strategic sectors as telecommunications and financial services. Nearly all USAID-funded technical assistance activities under this strategic objective focused on education, implementation and enforcement. Programs included continuing legal education to help practicing commercial lawyers stay on top of changing developments in legislation and practice; training for Russia's newly established Bailiffs Service to help it enforce court judgments; roundtables on corporate governance issues with the participation of Russian agencies, judicial bodies and representatives of private business; technical assistance for Russian competition policy authorities, including a seminar jointly sponsored with the Organization for Economic Cooperation and Development (OECD); and technical assistance to the Russian Trade Ministry to support WTO accession. Although Russia reinvested its efforts to accede to the WTO in FY 1999, its accession is probably several years off.

Ukraine: There were several reasons for optimism in Ukraine's otherwise bleak commercial legal environment in FY 1999. The Ukrainian parliament adopted amendments to the pledge law (including an amendment providing for the creation of a collateral registry), and overhauled its insolvency law, which deals with both bankruptcy and the reorganization of enterprises. USAID provided technical support for these two developments. A December 1999 presidential decree mandated the privatization of Ukraine's remaining collective and state farms. USAID-supported policy reform programs have helped Ukraine's presidential administration rationalize and codify these reforms. On the other hand, Ukraine's movement toward WTO accession was reversed as a result of the adoption of several resolutions and laws on agriculture that were inconsistent with WTO standards. Moreover, a modern civil code establishing the basis of commercial relationships (including contracts and property rights) has yet to be adopted in Ukraine. In order to help create a consensus in Ukrainian commercial legal circles about this and other needs for reform, USAID funded a commercial law clearinghouse in cooperation with the Ukrainian Legal Foundation (ULF).

Moldova: In FY 1999, Moldova made progress in removing the remaining Soviet-era laws and norms from its legal framework. USAID assistance was instrumental in the elaboration of a new civil code and a unified tax code. Other laws that were adopted include laws on bankruptcy, enterprise restructuring and securities. Moldova made notable progress towards WTO accession in FY 1999. Expectations of accession in time for the 1999 WTO Ministerial in Seattle were dashed, however, due to the incompatible negotiating positions of Moldova's major trading partners. In the area of land reform, the Moldovan parliament passed a law providing for the privatization and registration of enterprise land, and a presidential decree was signed doing the same for agricultural land. A pledge law was amended to promote the purchase of money mortgages and streamline foreclosure procedures.

Business Development Programs

Central Asia: In Central Asia, micro-enterprises and small to medium-sized enterprises (SMEs) continue to be an important target of USAID business development assistance. In Kyrgyzstan, USAID supported a micro-lending project that provided over \$11.9 million in loans to almost 77,700 clients in FY 1999. The Central Asian - American Enterprise Fund (CAAEF), which promotes the creation of small and medium-sized business in Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, provided \$12.8 million in small-enterprise lending in FY 1999. To date, the CAAEF has made \$29 million in small and medium-sized loans, of which \$13 million has been repaid. The CAAEF invested an additional \$3.6 million in micro-lending programs in Kazakhstan and Kyrgyzstan.

Caucasus: In FY 1999, USAID business development programs in the Caucasus region also emphasized micro-enterprises and SMEs. In Armenia, the Eurasia Foundation loaned over \$4.3 million to 149 SMEs and helped create almost 1,100 jobs. With USAID support, the Trans-Caucasus Enterprise Fund began implementing a \$20 million grant to implement a five-year Trans-Caucasus SME finance program in Armenia, Azerbaijan and Georgia, the primary focus of which is to create and promote financial products and institutions that meet the needs of small businesses and entrepreneurs. In Georgia, the Trans-Caucasus Small and Micro Loan Program disbursed \$1.36 million in loans to more than 4,000 clients, with an average loan size of \$300, while in Azerbaijan, 2,895 clients received loans totaling more than \$600,000 under this program, although program operations were suspended in mid-1999 pending the resolution of taxation issues. In Armenia, more than 400 clients received loans totaling over \$46,000 under this program, with an average loan size of \$110. In addition, USAID complemented its financial sector initiatives with non-financial enterprise development efforts such as training and networking. Two grant competitions were undertaken in Georgia: one for professional associations and one for business associations. USAID implemented 48 technical assistance projects this past year to assist businesses and business associations in marketing, finance, strategic planning, and improved management, and helped create a local organization, BusinessLink, which will continue to provide technical assistance and services to businesses throughout Georgia. An agricultural credit program, based on eight newly created credit cooperatives and the use of land as an acceptable form of collateral, provided over \$350,000 in loans to 317 members of cooperatives.

Russia: In September 1999, the Ministry of Anti-Monopoly Policy and Support of Entrepreneurship and the U.S. Government signed an action plan under the auspices of the Small Business Working Group of the U.S.-Russia Joint Commission on Economic and Technical Cooperation. The action plan commits the Ministry to work with USAID, the U.S. Department of State and the U.S. Small Business Administration (SBA) in four areas: improving the legislative basis for entrepreneurial development in Russia, developing financial mechanisms of entrepreneurial support, addressing regional aspects of entrepreneurial development, and providing business training. In December 1999, the Ministry asked for and received USAID assistance in preparing a legislative agenda for the upcoming session of the newly elected State Duma (parliament). USAID will continue to support the Ministry's efforts to fulfill the action plan. As of October 31, 1999, The U.S.-Russia Investment Fund (TUSRIF) had funded a cumulative total of \$32.07 million in loans to 1,300 small businesses and individuals. Meanwhile, direct financing of \$112.89 million has been made to 30 firms. USAID has also provided \$35 million in funding to the EBRD's Russian Small Business Fund (RSBF), which has provided 28,000 loans to small and micro-enterprises through selected Russian commercial banks. USAID also provided \$20 million to the Lower Volga Regional Venture Fund (LVRVF), which supports newly privatized enterprises. The USAID-supported "Mobilizing Agricultural Credit" Program provided capital to eight Russian farm cooperatives supporting private farms. The Program for the Revitalization of Agriculture through Regional Investment (PRARI) saw positive developments in policy reform at the oblast (regional) level and facilitated U.S. direct investment in Russian agricultural processing enterprises. USAID also continued to support business training for entrepreneurs, as well as various kinds of technical assistance to individual enterprises and business support institutions in more than 30 regions throughout Russia.

Western NIS: USAID's program to support SME development in the Western NIS concentrates on removing constraints and creating an enabling environment for private-sector growth. Through 1997, the program focused on improving access to business skills, but in 1998 it began to assist business associations and the Ukrainian Government in promoting reforms in the legal and regulatory environment, a critical constraint to the development of SMEs in Ukraine. Access to credit is another important ingredient for SME growth, and USAID has targeted this problem directly through support for the Western NIS Enterprise Fund (WNISEF), the Eurasia Foundation's Small Lending Program, the Microcredit Program of the European Bank for Reconstruction and Development (EBRD), credit union development and other micro-enterprise credit initiatives. Over the past four years, 15 USAID-funded business service centers have been created in Ukraine and Moldova, and over 30,000 clients have received services through these business centers. USAID has also trained over 1,000 Ukrainian accountants and auditors in International Accounting Standards (IAS), reporting and managerial accounting. In early 1999, a USAID-financed Business Management Education Program began strengthening the capacity of Ukrainian institutions to provide business management education, by establishing partnerships between U.S., Polish and Ukrainian faculty and institutions. A total of 35 Ukrainian institutions are participating in this program. USAID also funded the Women's Economic Empowerment Project to increase opportunities for women entrepreneurs. A USAID-funded Agribusiness Partnerships Program in Moldova resulted in the creation of three farm support centers, as well as direct U.S. investment in agricultural processing ventures. In an effort to create economically viable private farms, these programs are providing mortgage loan capital through local banks to private farmers wishing to acquire additional farmland. In addition, a USAID-supported privatization program is breaking up collective and state farms, and has created several hundred new private farms.

Major Contractors and Grantees

Major implementing partners under this strategic objective include the European Bank for Reconstruction and Development (EBRD), Booz-Allen and Hamilton, Associates in Rural Development (ARD)/Checchi, the University of Maryland's Institutional Reform and the Informal Sector (IRIS), Deloitte and Touche, the American Bar Association's Central and East European Law Initiative (ABA/CEELI), the Foundation for International Community Assistance (FINCA), Shorebank Advisory Services (SAS), the Eurasia Foundation, the International Executive Service Corps (IESC), Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), the Citizens Democracy Corps (CDC), and the MBA Enterprise Corps. USAID is closely coordinating its activities with other U.S. Government agencies providing assistance in this area, including the U.S. Federal Trade Commission (FTC), the U.S. Department of Justice (DOJ), and the U.S. Commerce Department Commercial Law Development Program (CLDP).

STRATEGIC OBJECTIVE 1.4: A more competitive and market-responsive private financial sector

This objective seeks to improve the private sector's access to capital through a wide array of financial instruments at market-determined rates. It places an emphasis on strengthening the efficiency, reliability and transparency of financial markets and building participation by users of capital and investors/lenders. Representative activities include the following:

- helping to establish efficient, well-regulated private banking operations;
- strengthening central bank functions and regulatory oversight of commercial banking;
- improving security of the banking system through bank guaranty funds and deposit insurance facilities;
- helping to establish strong, effective and fair securities regulatory entities and creating liquid and transparent secondary financial markets;
- creating safe, efficient and effective post-trade facilities to move securities and funds, as well as promoting safekeeping of securities and funds by intermediaries and depositories;
- promoting good corporate governance through full and fair disclosure and shareholder rights; and
- developing corporate bond markets to support the long-term financial stability of enterprises; spot- and forward-commodities contracts to support agriculture and industry; market-based mortgage lending to support housing and real estate markets; municipal bond markets and other instruments to support local government resource mobilization; and providing market-based, short-term credit facilities for small and medium-sized enterprises.

Progress Made in FY 1999

Given the fact that no private capital formation took place in the Soviet Union, USAID's financial-sector reform programs in the NIS seek to facilitate the sustainable development of banking and capital markets. USAID assistance has centered on creating privately owned and operated exchanges. Even though banks nominally existed in the Soviet period, they did not function as financial intermediaries. As a result, replacing existing Soviet-era banking institutions (through privatization, restructuring or liquidation) with a free market-oriented system has been as challenging as creating new capital markets from scratch. USAID assistance is focused on the institutional strengthening of bank regulation and promoting capital formation and the creation of sustainable exchanges. A related emphasis has been placed on establishing and helping to enforce the necessary legal and regulatory framework for a competitive market system. A third emphasis is the development of professional associations and self-regulatory organizations to promote industry, help train participants, and educate the general public.

These efforts notwithstanding, financial-sector reforms are far from complete in the NIS region, where banking sectors are characterized by a large state presence, a low level of financial intermediation, a high percentage of bad loans, and weak central bank supervision. According to some estimates, the average volume of credit to enterprises in the NIS countries is as low as ten percent of GDP—substantially below levels in Central and Eastern Europe. While bank privatization has moved forward in Russia, Kazakhstan and Kyrgyzstan, most NIS banks continue to be under substantial state influence. Despite improved regulatory and institutional frameworks, NIS capital markets remain as underdeveloped as the region's banking sectors. In general, the newly created securities regulatory entities have progressed well, as have securities exchanges and post-trade facilities, at least in terms of infrastructure and organizational development. Remaining problems in these markets include a lack of volume and poor corporate governance—problems that will be addressed by future Western donor programs.

As a result of the contagion effects of the 1998 Russian and Asian financial crises, the sovereign credit ratings of the four biggest NIS economies (Kazakhstan, Moldova, Russia and Ukraine) were downgraded, which in turn raised the rates on

government debt (due to demands of foreign investors) and consequently choked off investment in the private sector. The decrease in investment interest in the private sector, coupled with little noticeable improvement in corporate governance, led to low turnover in the secondary equities markets, which in turn threatened the financial viability of exchanges and the financial system.

Inter-Regional Comparisons

Several regional trends can be discerned from recent efforts to rate progress in reforming the financial sectors of the NIS countries. First, there is a large gap in progress in financial-sector reform (in both the banking and capital markets) between the NIS countries and the northern-tier Central and East European (CEE) countries, the “transition leaders.” According to the European Bank for Reconstruction and Development (EBRD), the gap in progress between the two regions is larger in financial-sector reform than in any other area of economic reform. Second, progress in capital-market reforms in the NIS is comparable to that in the southern-tier CEE countries. However, banking-sector reform lags notably behind southern-tier CEE standards.

Kazakhstan and Kyrgyzstan: Kazakhstan and Kyrgyzstan are the region's leaders in banking sector reform. Many banks in Kyrgyzstan are now in general conformity with prudential requirements, and the banking sector was healthier this year than in late 1998. The forecast is for continued strengthening of institutions but limited, if any, improvements in financial intermediation. Banking in Kazakhstan remains highly concentrated, although privatization and foreign participation have recently strengthened the sector. Capital markets are underdeveloped but are growing. Pension reform in Kazakhstan and Kyrgyzstan and large-scale privatization in Kazakhstan is facilitating this growth. All capital markets institutions in Kazakhstan and Kyrgyzstan are in place and functioning, although they have been affected by a reduction in trading volume. The advent of pension funds may fuel future market volume in the years ahead.

Other Central Asian Republics: Uzbekistan and Turkmenistan continue to lag behind all other NIS countries in financial-sector reform; state control of the financial sector is pervasive. To a large extent, banks continue to function in a Soviet manner by serving as intermediaries (through directed credits) between the government and priority sectors in the economy. Capital markets do not function in either Uzbekistan or Turkmenistan at this time. Meanwhile, Tajikistan has yet to recover from the aftermath of its civil war, and there is no organized financial system operating in large portions of the country. The financial situation is not expected to improve in Tajikistan in the near term.

Russia: The August 1998 devaluation of the Russian ruble and the forced restructuring of government debt plunged much of Russia's banking sector into insolvency and brought securities-market trading to a halt. A weak regulatory structure contributed to the collapse of financial intermediation, including several bank runs. The Russian stock market dropped by ninety percent from October 1997 to October 1998, and the market turmoil in Russia had a significant adverse impact on financial markets elsewhere in the NIS. USAID is working with the World Bank and other donors to develop a bank restructuring plan to strengthen Russia's banking sector, as well as the Russian Government's oversight capacity. The level of future USAID assistance in this area depends on the degree to which Russia demonstrates a commitment to financial-sector reform.

Caucasus: Both Georgia and Armenia have embarked on significant reforms of their banking and capital markets. While it will be at least a year before it can be determined if significant progress is being made, initial indications are encouraging. Both countries have reduced the number of banks, increased the level of bank supervision and raised the required capital levels. Neither country has privatized any significant state-owned banks. In the area of capital markets, both countries have made significant progress in establishing securities regulators and exchanges. Georgia has privatized almost all medium-sized enterprises, while Armenia lags behind in this area. There is an extreme distrust of financial intermediaries in both countries—a legacy of numerous banking system failures and pyramid schemes—which is probably the single most significant obstacle to capital markets development.

Ukraine and Moldova: Both countries have received significant USAID assistance and have made substantial strides in financial-sector reform: institutions have been created, laws and regulations introduced, associations formed and training conducted. However, while the necessary building blocks are in place or under construction, Ukraine and Moldova cannot seem to generate the direction and momentum to create a viable, trustworthy financial sector. USAID-supported financial sector programs in both countries are focused on developing financial infrastructure, including bank supervision, the conversion of banks and businesses to international accounting standards (IAS), the development of the payments system, the creation of a securities depository, and training for bankers and securities dealers. Fallout from the 1998 Russian financial crisis made USAID technical assistance in this area particularly relevant and sought after in 1999. These activities are ex-

pected to have a long-term impact. USAID's role has been a catalytic one, helping these countries concentrate on the fundamentals and develop cadres of trained professionals.

- **Ukraine:** As part of the International Monetary Fund's (IMF) extended fund facility (EFF) program, the National Bank of Ukraine created rehabilitation plans for Ukraine's largest banks (which account for about 55 percent of the country's banking-sector assets) and is beginning a similar exercise with the group of second-tier banks (which account for another 35 percent of banking-sector assets). Additional technical assistance is being provided through the Barents Group-KPMG, and Booz Allen and Hamilton. A USAID-funded project on accounting and bank risk management implemented by International Business & Technical Consultants, Inc. (IBTCI) is now moving beyond the conversion to IAS to the development of basic bank risk-management tools such as internal audits and management reports. USAID has also begun an intensive project on the development of a securities depository. In addition, a USAID-established training school is increasing its reliance on Ukrainian instructors: when the program concludes in 2000, the Ukrainian entity is likely to be self-sustaining.
- **Moldova:** In Moldova, USAID's bank supervision project now has a well-articulated off-site analysis system. As in Ukraine, the accounting project in Moldova has been expanded to concentrate on fundamentals of bank risk management.

Major Contractors and Grantees

Major contractors under this strategic objective are Financial Markets International, Inc.; Barents Group LLC; International Business and Technical Consultants, Inc.; KPMG; the Pragma Corporation; PriceWaterhouseCoopers; and Booz-Allen and Hamilton. Major grantees include Financial Services Volunteer Corps (FSVC), and the Foundation for International Community Assistance (FINCA) International, Inc.

STRATEGIC OBJECTIVE 1.5: A more economically sound and environmentally sustainable energy system

Energy is closely linked to important U.S. foreign policy interests in the NIS region, including the security of energy supplies from the Caspian Sea Basin and Russia, nuclear reactor safety, the increased economic and political independence of the NIS countries through decreased dependence on oil and gas imports from Russia, and, in support of the Global Climate Change Initiative, a reduction in greenhouse gas emissions (the NIS countries account for nearly one quarter of the world's total carbon dioxide emissions).

This strategic objective focuses on achieving greater efficiency in energy production and use through the development of competitive, market-based energy systems that reduce environmental pollution and risk. Program emphases include the following:

- developing sound national energy policies and pricing systems;
- improving energy efficiency in industry, building, residential and power/heat systems and reducing environmental emissions;
- restructuring, regulatory reform and the privatization of energy systems, particularly the electric power system;
- increasing safety at Soviet-designed nuclear power plants and developing economic alternatives to continued operation of high-risk plants;
- expanding the energy trade and integration of NIS energy systems with those of Western Europe and international energy markets.

Progress Made in FY 1999

In FY 1999, USAID implemented bilateral energy-sector reform programs in nine NIS countries: Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan. Energy-sector restructuring efforts in these countries have been plagued by serious non-payment problems, entrenched political interests wanting to maintain monopoly structures, and central government control of the energy sector. Nevertheless, significant progress was made in FY 1999. The most aggressive energy-sector reformers have been Moldova, Armenia, Georgia and Kazakhstan. Each of these countries, having completed basic restructuring, is now moving to privatize its energy-sector companies and create a well-functioning power market. A major donor effort is focused on the privatization of electricity distribution companies in

Ukraine as an essential first step to improving the financial viability of the system and as part of the agreement on the closure of the Chornobyl Nuclear Power Plant planned for 2000.

The NIS countries have continued to make progress in developing the regulatory framework for the energy sector, particularly in electric power. With the help of USAID assistance, Russia, Ukraine, Moldova, Georgia, Armenia, Kyrgyzstan and Kazakhstan have all established separate energy-regulatory codes with varying degrees of autonomy. To facilitate the exchange of experience among these nascent organizations, as well as with similar energy regulatory organizations in Central and Eastern Europe and the Baltic states, USAID has established a formal regional regulatory network that focuses on tariffs, licensing, market development, privatization, organizational development, and funding issues. Through a cooperative agreement with the U.S. National Association of Regulatory Utility Commissioners (NARUC), the creation of a formal association is expected over the next year.

Russia: In FY 1999, USAID began phasing out its energy-sector programs in Russia, with the exception of the utility partnerships between U.S. companies and two private regional companies through the U.S. Energy Association, energy-efficiency activities in the Russian Far East; and assistance to Russia's nuclear regulatory agency provided by the U.S. Nuclear Regulatory Commission (NRC). A team from the non-governmental Center for Energy Efficiency (CENEf) has developed an emergency heat efficiency program for Sakhalin Island and Magadan Oblast to ameliorate the impact of winter energy shortages.

Moldova and Ukraine: The focus of USAID's energy-sector programs in Moldova and Ukraine is on privatizing electricity distribution companies and establishing a regulatory framework to promote foreign strategic investment. With support from USAID-funded privatization and regulatory advisors and World Bank investment bankers, Moldova has solicited international tenders and is reviewing proposals. Following its presidential elections, Ukraine made reform of its electricity market and privatization of its distribution companies a priority. The U.S. Government, together with the European Bank for Reconstruction and Development (EBRD), European Union (EU) and World Bank, is providing technical and investment banking assistance to privatize the first seven of Ukraine's distribution companies in 2000.

Armenia and Georgia: With USAID assistance, Armenia and Georgia have made significant advancements in energy reform over the past three years, despite their difficult financial positions. Both countries have created effective energy regulatory commissions that are developing transparent tariff methodologies. Georgia has continued to privatize its electric power system, including the major thermal plant at Gardabani, with U.S. Government and World Bank support. Armenia is preparing to privatize its four main distribution companies in early 2000 with USAID, World Bank and EBRD support. Georgia has cooperated with and strongly supported both the U.S.-backed main oil pipeline from Baku to Ceyhan and the Trans-Caspian Gas Pipeline. In FY 1999, USAID helped to develop and enact legislation on eminent domain and environmental liability that will facilitate the development of these pipelines.

Kazakhstan and Kyrgyzstan: USAID's continued work in the power sectors in these two countries has contributed to policy reforms which have led to the sale of over 90 percent of Kazakhstan's electric generation system to private investors since 1995 and the establishment of a more independent regulatory commission in Kyrgyzstan. However, Kyrgyzstan has been struggling to overcome strong internal opposition to de-monopolizing its power holding company, with the privatization of distribution companies postponed to 2000. Political pressure to keep tariffs low still encourages wasteful energy use by consumers and inefficient heating. In contrast, Kazakhstan is privatizing its remaining state-held distribution companies and is establishing an effective and well-regulated power market; USAID helped develop two loans of over \$300 million from the World Bank and EBRD to support the development of this market and establish a sound regulatory framework. New USAID-funded utility and regulatory partnerships implemented by the U.S. Energy Association (USEA) link Kazakhstan's regulatory entity, transmission company and the Kazakhstan Electricity Association with U.S. energy companies. In addition, USAID and other U.S. Government agencies continued to work with Kazakhstan in developing its commitment to reducing greenhouse gas emissions.

Central Asian Regional Energy Initiatives: In addition to its bilateral energy-sector reform programs, USAID has also supported regional energy cooperation in Central Asia. Given the globally significant oil and gas potential of this region, USAID has worked in collaboration with the European Union to help establish a sound legal and regulatory framework conducive to private foreign investment and export. Progress has been made in developing petroleum legislation and implementing regulations in Kazakhstan and Turkmenistan, but Uzbekistan has been slower in this regard. Significant new petroleum regulations that include offshore environmental standards were adopted in FY 1999 in both Kazakhstan and Turkmenistan. USAID also developed a new cooperative program with the U.S. Minerals Management Service to advance training and institutional development in the natural resources area. Considerable progress has also been made over the past

two years on regional electricity and water protocols, enabling the Central Asian countries to operate the region's power system more in line with the region's water and irrigation needs. In Uzbekistan, a new USAID-funded partnership was established between the New York Power Pool and the United Dispatch Center in Tashkent.

STRATEGIC OBJECTIVE 1.6: Increased environmental management capacity to support sustainable economic growth

USAID's E&E Bureau introduced this strategic objective in the NIS in late 1997 in order to articulate the important linkages between environmental issues and economic reform and growth objectives. It focuses on creating the necessary building blocks for sound environmental management as a crucial component and precursor of sustainable economic development. The objective focuses on increasing public- and private-sector capacity to address environmental constraints to development, including pollution, industrial waste, greenhouse gas emissions, deforestation, and other threats to the natural resource base. Program approaches include the following:

Public Sector

- promoting policy, legislative and regulatory actions to improve environmental and natural resource management;
- strengthening government capabilities to manage and regulate environmental activities in a manner compatible with free-market principles; and
- promoting the use of economic instruments to supplement regulation, including emissions trading, environmental charges and tax incentives for the adoption of improved technologies.

Private Sector

- promoting public-private partnerships for infrastructure investment to improve environmental conditions;
- promoting increased finance, trade and investment in more efficient and effective environmental technologies;
- helping firms conduct environmental audits, thus facilitating cost-effective compliance with environmental standards; and
- strengthening the involvement of NGOs and civic groups in environmental policy and action programs.

Progress Made in FY 1999

Caspian Sea Region: A USAID-funded oil and gas environmental partnership through the U.S. Energy Association (USEA) supports the development of policies that protect the environment while permitting sustainable development—a vital need, given the anticipated development of the Caspian Sea region's substantial oil and gas reserves. Partnership activities will address issues related to oil development in the Caspian Sea and oil transport along the trans-Eurasian corridor. Partnership arrangements will encourage direct contact and exchanges between technical and management experts from appropriate U.S. organizations and their Caspian Sea regional counterparts.

NIS-Wide Regional Programs: Under a cooperative agreement with the Initiative for Social Action and Renewal in Eurasia (ISAR), USAID is supporting public participation in environmental issues and environmental NGOs throughout the NIS. Country-specific activities under this project are described below.

Caucasus: In Armenia, USAID has carried out an environmental assessment of the entire energy sector to meet World Bank and Japanese Export-Import Bank requirements for the release of a \$95 million loan aimed at improving the country's transmission and distribution of energy. The Yerevan office of the American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI) is working to enhance public participation in environmental decision-making by encouraging advocacy groups to identify and address environmental problems through the democratic process. In Georgia, ISAR provided capacity-building assistance to Horizonti, the first locally registered foundation created under Georgia's new NGO law. Horizonti will provide training, small grants, technical support and information to the Georgian NGO community, including environmental NGOs.

Central Asia: By providing technical assistance, equipment and policy advice, USAID is making progress in changing the environmentally damaging practices of the Soviet era. U.S. Government efforts in this area contributed to the signing of a landmark water-sharing agreement by the prime ministers of Kazakhstan, Kyrgyzstan and Uzbekistan. USAID is also working with the Interstate Council for Kazakhstan, Kyrgyzstan and Uzbekistan (a Central Asian economic organization) to bring about regional energy cooperation. The Central Asian regional energy grid will develop and trade energy, precluding

the building of unnecessary power plants and maximizing use of the vast hydroelectric capabilities that exist in the Central Asian region. In addition, USAID-funded legal and regulatory reform efforts help draft environmental protection laws that will regulate the production of electricity and petroleum. USAID is also helping Kazakhstan draft legislation to establish water-user associations, a new environmental law, and a pilot air-pollution emissions program, and is helping Uzbekistan draft legislation establishing air pollution standards. In addition, the first phase in Kazakhstan's development of a national environmental action plan is under way. ISAR is supporting the growth of environmental NGOs in Central Asia and is facilitating joint environmental activities between U.S. and Central Asian environmentalists. In Tajikistan, the Citizens' Council on the Environment, an initiative group created by ISAR grantees, began to hold regular meetings with the Deputy Minister of the Environment to advise him on national environmental policy. In Turkmenistan, ISAR and the Sacred Earth Network helped a local NGO, Catena, disseminate information gained from the Internet to other NGOs in that information-deprived country.

Ukraine: USAID is working to ameliorate Ukraine's environmental problems and preserve natural resources through the Working Group on Ukraine's National Environmental Action Plan, which is providing technical assistance and advice, and is transferring U.S. experience on topics of special importance to the implementation of Ukraine's plan. To date, five of the Working Group's 10 recommendations have been incorporated into legislation. As part of this program, USAID has conducted workshops on the development and use of economic instruments in environmental policy. In addition, ISAR is supporting the growth of Ukraine's environmental NGO sector, and a nationwide Conservation Grants Program is providing comprehensive technical assistance to scientists, institutions and NGOs throughout Ukraine. A USAID-supported conservation needs-assessment workshop was held in 1999, bringing together key government officials, scientists and NGO representatives to assess Ukraine's biodiversity conservation priorities. USAID's Environmentally Sound Business-Development Project in the Carpathian region facilitated small business development in the region's wood-processing industry, increasing the efficiency of the production process by reducing timber use, waste products, and energy consumption. By the end of the project, some four to six businesses are expected to increase their efficiency by 10 to 15 percent. In addition, USAID supported 18 waste-minimization/energy-conservation demonstration projects implemented at 10 enterprises in the Donetsk and Dnipropetrovsk regions by the World Environment Center. Ukraine's largest steel making facility, AzovStal, completed a USAID-supported pollution prevention and recycling project. Meanwhile, USAID's Pest and Pesticide Management Project sought to demonstrate and transfer alternative approaches and techniques for pest and pesticide management that improve farm worker safety, food quality, and human and environmental health. USAID's Lviv Urban Water Project helped the Lviv Vodokanal (LVK) management repair and upgrade the city's municipal water system. Demonstration activities emphasized leak detection, hydraulic monitoring, energy-efficiency assessment, effective management, and other measures. USAID collaborated with a local energy company to produce estimates of the nationwide savings that could result if practices and equipment used in the LVK were replicated by other vodokanals throughout Ukraine. In addition, a team of engineers from the City University of New York and an affiliate of the Ukraine State University of Architecture and Engineering worked together to produce compact drinking-water purification units to provide cost-effective potable water. USAID also supported the U.S. Environmental Protection Agency's (EPA) Kaniv Reservoir Water-Quality Monitoring Project.

Russia: USAID's Replication of Lessons Learned (ROLL) Project has provided more than 150 grants to support Russian-to-Russian partnerships, with an average grant size of \$28,000 and cost-sharing by Russian partners averaging 30 percent. Examples of ROLL activities included the development of regional forest codes in two regions; the introduction of eco-tourism programs in 13 nature reserves in the Russian Far East; the implementation of a comprehensive air, water, and soil assessment in Samara Oblast (Region); and the introduction of a new environmental health-risk assessment methodology at the federal level. USAID-supported eco-business activities in the Russian Far East and Siberia have led to increased sales and profits for over 30 non-timber and secondary wood-processing companies. New activities include recycling programs for fish waste and mercury batteries, the introduction of new product lines (e.g., juices, frozen berries and syrups) for 10 companies, and facilitating market links between at least 15 Russian processors and foreign buyers of non-timber and timber forest products. USAID provided emergency assistance to Khabarovsk Kray in response to catastrophic forest fires that destroyed more than four million acres of valuable forests and threatened the health and livelihood of the people of the region. Food and medicines were provided to three indigenous villages, including hospitals and orphanages. Critical supplies were provided to local forestry departments, including fire-protective clothing, generators, fuel and spare parts. To improve the early detection of forest fires, USAID-funded radio communications equipment, including 437 radios, was provided to the Khabarovsk Kray's Forestry Management Department.

STRATEGIC ASSISTANCE AREA 2: DEMOCRATIC TRANSITION

Goal: To support the transition to transparent and accountable governance in political and economic decision-making

STRATEGIC OBJECTIVE 2.1: Increased, better-informed citizen participation in political and economic decision-making

This strategic objective encompasses USAID assistance to strengthen systems of democratic representation and open information, develop an informed citizenry, and encourage citizen participation through effective non-governmental advocacy and community groups. These programs seek to increase citizens' influence on public policy decisions, and improve government oversight. Illustrative activities include the following:

- promoting free and fair elections;
- supporting political party development;
- supporting the development of responsible independent media;
- promoting improved access to government information;
- increasing the breadth, vitality and impact of civic associations and NGOs concerned with public policy, human rights, service provision and environmental management; and
- strengthening independent, representative labor unions.

Progress Made in FY 1999

When the NIS countries gained their independence, civil society was either nascent or non-existent, due to both the historical absence of a democratic tradition and Soviet-era prohibitions against democratic practices, including the right to free expression, the right to organize and advocate, and the right to form independent political parties and hold free and fair elections. The building of a vibrant civil society—one in which citizens engage freely in debate and participate in politics, economics and social life—has been a central focus of USAID assistance to the region. In FY 1999, USAID pursued this strategic objective throughout the NIS, and ongoing USAID-funded activities continued to move some of the NIS countries towards this objective; however, a great deal of work still needs to be done. Kyrgyzstan and Georgia made substantially more progress in this area than Turkmenistan, Belarus and Uzbekistan, which made little if any progress. USAID's efforts under this objective are mainly carried out by U.S. non-governmental organizations (NGOs).

Political Process Programs: Through USAID assistance, measurable progress has been made in increasing the level of professionalism and expertise of election administrators, resulting in greater transparency in electoral processes. Permanent, professional, election commissions have created a greater sense of public confidence that elections on all levels are conducted more freely and fairly. In FY 1999, Ukraine made substantial progress in this area: with USAID assistance, a permanent and independent Central Election Commission was established and extensive training was provided to polling station officials. Reports by international and governmental organizations on Ukraine's recent presidential elections indicate that the elections were conducted in accordance with law and met international standards for transparency, efficiency and fairness. Throughout the region, voter turnout continues to be high, but political party development remains a critical challenge, as parties at both the local and national level attempt to organize more effectively and to attract greater levels of citizen participation. In Kazakhstan and Uzbekistan, elections were neither free nor fair, and USAID-funded election-related assistance was channeled exclusively to NGOs and independent media outlets.

Support for Independent Media: In the face of ongoing—and in some cases increasing—official and unofficial harassment of independent media, USAID continued to support independent media throughout the NIS in FY 1999. In response to the Russian financial crisis, USAID changed its program approach to address the financial difficulties faced by independent print and broadcast media, providing emergency assistance to numerous regional broadcasters and newspapers to keep them afloat until advertising revenues returned. In Belarus, independent media continued to operate under the grimmest of circumstances, with journalists, editors and publishers harassed on a daily basis. In Armenia, a student who participated in a USAID-funded Internews seminar in Yerevan was the first to obtain a video of the October assassination of the country's prime minister, and private broadcasters were the first to interview the assassins. In Kazakhstan, the government acceded to requests to reduce frequency license costs by 30 to 90 percent, which will encourage new entrants and thus more competition in the media. In Kyrgyzstan, efforts by Internews-funded lawyers to combat a draconian media law succeeded in convincing President Akayev to change the legislation. In 2000, USAID will continue to promote the sustainability of the re-

gion's strongest print and broadcast outlets, and to help politically oriented independent media continue to operate in hostile working environments.

Non-Governmental Organizations (NGOs): In FY 1999, progress toward a sustainable NGO sector throughout the NIS remained steady, but incremental. Throughout the region, NGOs were increasingly able to aggregate the interests of citizens to influence public policy decisions, empower citizens to improve their communities, and provide services to vulnerable groups. Even in Central Asia and Azerbaijan, where the political climate is less conducive to the emergence of a robust civil society, NGOs are providing citizens with a means to engage political elites and advocate for reform. In Uzbekistan, for example, NGOs advocated and drafted a relatively progressive new law to regulate the country's NGO sector. In Georgia, a coalition of NGOs representing the interests of the disabled successfully demanded a change in legislation. However, achieving financial and organizational sustainability remains a formidable challenge for NIS NGOs. There is little or no tradition of philanthropy in the region, and local economies remain weak. Creative approaches to revenue raising and income generation, including corporate challenge grants and charging fees for services, have contributed to the development of NGO sustainability in Ukraine and Kazakhstan and will need to be expanded in all NIS NGO development programs.

Major Contractors and Grantees

Major contractors under this strategic objective include the following: the Initiative for Social Action and Renewal in Eurasia (ISAR), the Armenian Assembly, World Learning, Winrock International, Counterpart International, the Eurasia Foundation, Internews, the National Press Institute, the International Research and Exchanges Board (IREX), the International Foundation for Election Systems (IFES), the International Republican Institute (IRI), and the National Democratic Institute (NDI).

STRATEGIC OBJECTIVE 2.2: Legal systems that better support democratic processes and market reforms.

This objective seeks to establish the rule of law; protect civil, political and property rights; and limit arbitrary government action. The fair, objective and consistent rule of law requires the development of an independent judiciary, professional and honest prosecutors, effective legal representation, and well-defined legal procedures that help ensure uniform and timely enforcement of laws. Representative activities in FY 1999 included the following:

- support for the drafting of civil codes and other laws that embody democratic norms and procedures;
- programs to strengthen the independence and capacity of the judiciary, and to support more transparent and efficient administration of cases;
- programs to upgrade the capabilities of prosecutors' offices, the legal profession and bar associations;
- training designed to strengthen judges' understanding of the principles of market economics and the adjudication of commercial law;
- programs to help develop organizations and procedures to improve the enforcement of court decisions;
- support for increased understanding of reforms and legal rights; and
- programs to help establish organizations and processes that reduce government corruption and human-rights violations.

Progress Made in FY 1999

USAID formally pursued this objective in FY 1999 in four NIS countries: Armenia, Georgia, Russia and Ukraine, although USAID also supported rule of law projects at a more modest level in other NIS countries. Of the four countries, Ukraine has been the slowest to establish a legal system that better supports democratic processes and free-market reform. Ukraine continues to lack a law merging its courts of general jurisdiction and its arbitration courts—a law necessary for progress on important additional legislation, including a civil code, civil procedure code and criminal procedure code. In comparison, Georgia, Russia and Armenia have made greater progress in continuing and consolidating legal reforms. However, even these three countries have been slow to deepen and consolidate legal reform, particularly the implementation and enforcement of existing laws. In addition, corruption in all four countries remains systemic at all levels of society, with deleterious effects on the economy as well as corrosive effects on public confidence in government institutions. In addition to corruption, critical obstacles to furthering the rule of law in all four countries include inadequate institutional capacity and insufficient commitment of government resources to this area. Ultimately, the effectiveness of legal reform efforts in these countries depends on the will of their institutions and citizens to adhere to concepts of fairness, transparency, accountability and legal predictability. With the recognition that creating legal systems that ensure the rule of law in these countries is a long-

term, generational process, USAID continues to channel assistance towards substantive areas and governmental and institutional actors where assistance is most likely to make a difference. Significant progress was made in several areas in FY 1999.

Armenia: Obstacles to the rule of law in Armenia include executive branch influence over the judiciary, judicial hesitancy about asserting independence from the executive branch, uneven enforcement of judicial decisions, corruption at many levels of government, and public cynicism about improvements to the legal system. Recent structural and legislative changes have helped set the stage for implementing a fair system of justice. With USAID assistance, a variety of new laws came into effect in January 1999, including a new civil code and a new court structure that abolished the old trial-level courts and created new courts of first instance and a court of appeals, in addition to a Court of Cassation (highest-level court) and a separate Constitutional Court. Judges for the new courts were selected through a competitive testing and certification process, with approximately 40 percent of appointees being new to the bench. While Armenia's legal system made great progress in FY 1999, the level of expertise of legal professionals and public confidence in the system did not keep pace; consequently, USAID programs in this area include extensive support for training and re-training of legal professionals. USAID-funded consultants have worked closely with the Judges' Association and the Council of Court Chairmen (the judicial body responsible for court administration, budgeting and financing) to provide essential training to all Armenian judges and to plan for future training needs. USAID has also supported U.S.-based training for attorneys through the Bar Association of Armenia and the Yerevan State Law School. USAID helped associations of legal professionals develop codes of conduct and use training sessions to stress the importance of ethical conduct. In coordination with the World Bank, USAID has also initiated programs with the Council of Court Chairmen to improve court administration and case management, the Ministry of Justice to improve the Court Executors' Service, and supported efforts by the Government of Armenia to develop a law on administrative procedure. Such a law would give business much greater certainty when dealing with the government bureaucracy and substantially reduce the scope for corruption in public service. USAID's FY 2000 assistance will include public outreach to promote greater confidence in judicial and legal reform.

Georgia: Significant progress has been made in legal reform over the last four years and several major reforms were implemented in 1999 with USAID assistance. Following a series of USAID-supported judicial qualification examinations and a vetting process that began in May 1998, 176 newly qualified judges assumed the bench in May. Two appellate courts were opened and a new court administration system went into effect. USAID provided assistance with qualification exams, training for new judges, computers for appellate courts, and the establishment of a private judges' association. Less than six months later, private attorneys report that their cases are now receiving more consideration and that an adversarial process is starting to develop. Judicial reform leaders from Moldova and Latvia visited Georgia in November 1999 to learn to replicate the exams and other measures. In June 1999, a new chairman and twelve other reform-oriented justices were appointed to Georgia's Supreme Court, which is receiving USAID-funded technical assistance and office equipment. Several laws critical to furthering democratic rights and market reforms passed in 1999 with USAID assistance, specifically a law on the enforcement of judgments, a licensing law, criminal code and administrative code. Passage of these laws was a requirement of the anti-corruption component of the Five-Point Program (FPP), a high-profile, program of assistance developed by the U.S. and Georgian Governments to promote the drafting, passage and implementation of laws to fight corruption. However, despite this impressive progress, problems remain. While judges' salaries were increased tenfold from a range of 30 to 50 lari (\$15-\$25) per month to 500 lari (\$250) a month, the Georgian Government has had problems paying new judges the new salaries—a situation that could encourage a return to corruption and cynicism. Recognizing that a judicial disciplinary law and judicial code of ethics are needed, USAID has helped prepare draft laws whose passage and implementation will be a major focus of USAID assistance over the next six months. The establishment of an honest, competent and independent judiciary alone will not guarantee the rule of law. Recognizing that the bar and the procuracy need reform and that human-rights abuses remain a problem, USAID is providing assistance for the passage of a law on the bar, and the U.S. Department of Justice is advising the procuracy.

Russia: Despite political turbulence in the executive branch and poor working conditions in many locations, progress continued in strengthening the Russian judiciary in FY 1999. Support for the judiciary cuts across party lines in Russian politics, and there is political will at the national level to strengthen the court system. Unfortunately, many courts in Russia still depend on local executive power for operating funds, which presents problems for the independence of the judicial branch. On the other hand, while a new legislative framework of judicial independence from the executive branch is in place, the Judicial Department of the Supreme Court retained operational control for the administration of courts of general jurisdiction and participated in the development of the courts' budget for the first time this year. A February 1999 law on the financing of the courts now requires the transfer of budget appropriations to the courts, and President Yeltsin raised the pay for judges and other government employees. The Bailiffs' Service of the Ministry of Justice, which was authorized by law in 1997, hired more personnel in 1999 to enforce civil judgments and is now prepared to assume court security functions.

USAID also continued to fund programs providing training in the application of commercial law for practicing lawyers, as well as education and networking for lawyers and legal officials on a wide range of women's legal issues, including trafficking, domestic violence and discrimination. In addition, USAID provided support for legal education reforms, including clinical legal education, and funded a human-rights monitoring and reporting project that covered 30 regions of Russia. One side effect of this latter project has been to promote cooperation among single-issue human rights advocates across a range of concerns. In addition, the USAID-funded Sakharov Center hosted and conducted numerous human-rights programs in FY 1999.

Ukraine: The adoption of a law on the judiciary, a requirement under the Constitution, remains the most important priority for legal sector reform in Ukraine. This law is expected to reorganize the system of courts of general jurisdiction. Without such legislation, the organizational structure of the courts, the statutory framework, the relationship between the Ministry of Justice and the courts, the right to trial by jury, and the powers of the procuracy remain undefined and subject to widespread abuses. Other legislative priorities are a new civil code, code of civil procedure, administrative code, code of administrative procedure, criminal code, code of criminal procedure and law on the procurator general. While work on a number of these codes has begun, none have yet been adopted due to the absence of consensus among drafters from the three branches of government. The independence of Ukraine's judiciary is limited by the executive branch's role in the selection and financing of the judiciary. Conflicting, incomplete, or overly detailed legislation impedes consistency in judicial decisions, as does corruption within the judiciary. Inconsistent application of the law and enforcement contributes to citizen apathy and cynicism towards the legal system. Despite these obstacles, however, some progress was made in FY 1999. While Ukraine has yet to adopt a full system of modern law codes and procedures, many Ukrainian legal professionals are committed to professionalism and ethical standards. USAID has supported training for lawyers, as well as the efforts of the Constitutional Court and other Ukrainian courts to improve the capacity of judges, promote judicial independence, and association building. One sign of the success of these programs is the fact that Ukrainian high courts continued to rule against the government. USAID also promotes citizen participation through assistance to advocacy NGOs and *pro bono* legal clinics. As a result, citizens advocacy groups continue to successfully challenge government actions and defend citizen and community rights, especially on environmental matters. In FY 1999, USAID-funded model anti-corruption programs were implemented in Donetsk and Lviv. These community efforts build public-private partnerships to develop local strategies that target corruption with specific action plans and targets. In Donetsk, for example, this program created hot lines for citizen complaints, new procedures for traffic police and business inspections, and a citizens' advocacy office that provides legal support for grievances about corruption. An American-British business venture headed by the U.S. firm Cargill decided to invest over \$65 million in a sunflower processing plant in Donetsk and stated that this extensive anti-corruption campaign persuaded them to invest in Donetsk. In addition, the program recommended changes to the existing anti-corruption law that were incorporated into a new draft prepared by a presidential anti-corruption committee.

Major Contractors and Grantees

Major contractors under this strategic objective include the following: the American Bar Association's Central & Eastern European Law Initiative (ABA/CEELI); Chemonics International, Inc.; AMEX International; the National Judicial College; the Russian-American Judicial Partnership; Institutional Reform and the Informal Sector (IRIS); the Moscow Helsinki Group; Management Systems International; and Associates for Rural Development (ARD)/Checchi. Additional technical assistance was provided by ABA/CEELI *pro bono* liaisons, U.S. Justice Department (DOJ) regional legal advisors, and DOJ/CEELI *pro bono* criminal law liaisons through the Justice Department's Office of Overseas Prosecutorial Development Assistance and Training (DOJ/OPAT).

STRATEGIC OBJECTIVE 2.3: More effective, responsible, and accountable local government.

Improved local governance is at the core of this objective, which requires the rationalization of intergovernmental roles and responsibilities, the decentralization of authority (including financial authority) to the local level, improved capacity of local government, and improved channels for citizen participation in local government affairs. The development of effective, responsible and accountable government at the local level is pivotal to the consolidation of free-market democracy in the NIS countries. This lesson in post-communist transition is demonstrated by the significant progress in the devolution of decision-making authority to local governments in the northern-tier countries of Central Europe—the countries that are furthest along in the reform process. Representative activities under this objective include the following:

- promoting the establishment of laws and regulations enhancing local government authority;
- expanding and improving revenue-sharing between central and local governments;
- helping to establish competitive and transparent procurement procedures;

- strengthening local technical and managerial capabilities;
- improving urban services such as water supply and waste management, when viewed primarily as local government-strengthening activities;
- promoting greater reliance on private-sector contracts for the provision of urban services and for the management and maintenance of municipally owned housing; and
- encouraging local government interaction with citizens through the publishing of local government decisions, public hearings, appointments to government boards, etc.

Progress Made in FY 1999

USAID's local government programs seek to build democracy and sound local economies in the NIS. Ultimately, success will be measured by the improvements in people's lives resulting from enhanced local services and greater economic opportunity at the local level. USAID's strategic framework is based on five attributes of successful local government: legal sustainability, democratic processes, financial resources, municipal services and assets, and institutional support systems. In FY 1999, local government programs were implemented in Kazakhstan, Kyrgyzstan and Ukraine, and new local government programs were being developed for Moldova, Armenia and Georgia. In addition, activities undertaken under other strategic objectives in Russia contributed directly to local government objectives.

Ukraine: An extensive community partnership program administered by the U.S.-Ukraine Foundation has fostered important technical assistance exchanges between 18 U.S. and Ukrainian municipalities. Best practices for municipal management are being transferred to Ukrainian local government officials by their U.S. counterparts. Previous USAID assistance has developed the Association of Ukrainian Cities into the single most important organization in Ukraine representing the interests of local government. Current programs build on this success by helping the Association establish regional offices throughout Ukraine and providing training of municipal officials at six training centers. USAID's Municipal Water Rollout Program is building on successful work with the Lviv Vodokanal (Water Company) to establish a local NGO with the technical and financial capacity to plan and design improvements to water supply systems throughout Ukraine. In addition, the Municipal Development Loan Fund is helping Ukrainian cities develop infrastructure projects suitable for multilateral bank funding.

Central Asia: In FY 1999, USAID local government programs were in their second year of implementation in Kazakhstan and Kyrgyzstan. Progress was slow, as the national governments grappled with the difficult challenges of decentralizing responsibility for the provision of local services, such as water and housing. While success was apparent in the housing sector, there was little progress in decentralizing fiscal authority and strengthening democratic institutions. An evaluation of these programs is being carried out with the intention of improving the impact of future assistance in these areas. In the area of water management, a regional meeting with representatives from all five Central Asian countries was held in Almaty in July 1999, in partnership with the World Bank. The meeting focused on water-supply issues and the need for organizational reform in this area.

Russia: Although there is no specific USAID local government program under way in Russia, considerable progress has been made through technical assistance contractors and grants to NGOs to improve housing, communal services and public real estate management in cities. Through the Resource Cities Program, a partnership has been formed between Novgorod and Hartford, Connecticut, directed at improving municipal finance. USAID has also funded a regional public finance program in the Russian Far East as part of the U.S. Government's Regional Initiative.

Caucasus: New local government programs have been developed in Armenia and Georgia, with implementation to begin in FY 2000. These programs will provide training and technical assistance to upgrade the skills of municipal officials and council members, develop the capacity of municipal associations to lobby the national government, increase citizen participation, and assist local governments in improving communal service delivery and providing a more supportive environment for local economic development. In addition, USAID will pursue policy dialogues with national governments to improve the enabling environment for democratic local governance, fiscal decentralization and the empowerment of local government. Where appropriate, USAID will coordinate these programs with other USAID activities related to social transition and private-sector development.

Major Contractors and Grantees

Major implementation partners under this strategic objective include Abt Associates, Chemonics, Development Alternatives, the Eastern European Real Property Foundation, the International City/County Management Association (ICMA), PADCO, the Research Triangle Institute (RTI), and the Urban Institute.

STRATEGIC ASSISTANCE AREA 3: SOCIAL TRANSITION

Goal: Respond to humanitarian crises and strengthen the capacity to manage the human dimension of the transition to democracy

STRATEGIC OBJECTIVE 3.1: Reduced human suffering and crisis impact

This objective encompasses actions to address critical humanitarian needs and strengthen organizational capabilities to anticipate, prevent and manage future crises. Representative activities include the following:

- emergency food distribution and establishment of food safety nets for vulnerable populations;
- assistance to war trauma victims, refugees and displaced persons;
- the provision of emergency supplies of medicines, vaccines and medical equipment;
- winter fuel distribution;
- improvement of support services for handicapped and abandoned children;
- development of early warning systems for humanitarian crises; and
- improvement of emergency response capabilities.

Progress Made in FY 1999

Due to instability and outbreaks of conflict in the NIS region in FY 1999, there continued to be a need for humanitarian assistance. Over the course of FY 1999, USAID pursued this strategic objective in six of the twelve NIS countries: Armenia, Azerbaijan, Belarus, Georgia, Tajikistan and Ukraine. USAID sought to help stabilize these countries' situations by initiating programs that promote self-sufficiency, support economic productivity among vulnerable populations, and discourage dependence on assistance. Wherever possible, humanitarian programs were phased out in lieu of more sustainable-development-oriented activities. However, before USAID can phase out humanitarian assistance in a given country, that country's economy needs to show signs of recovery, civil institutions need to better serve populations disrupted by conflict, and signs of normality must be apparent.

Armenia: The 1998-99 Winter Warmth Program distributed 7,300 metric tons of kerosene to schools and to vulnerable populations in temporary shelters in the earthquake zone of northern Armenia. This high-profile program provided the only means of heat for the entire winter to a large segment of the population and was the only source of heat for the vast majority of schools throughout Armenia. The sixth consecutive and final year of this USAID program proved to be the most successful, thanks to the implementation of lessons learned, as well as the collaboration of local, U.S. Government and non-governmental organizations. As a result, kerosene was distributed to 99.7 percent of beneficiaries with coupons. The 7,300 metric tons of kerosene assisted 35,966 beneficiaries still living in temporary shelters after the December 1988 earthquake and 1,303 schools throughout Armenia. Also as a final action, USAID provided \$571,000 to the United Nations World Food Program (WFP) in support of its food-for-work activities. In lieu of wages, workers under the program receive food packages of vegetable oil, flour and sugar. Since 1996, the program has been transitioning from humanitarian distributions to development assistance. Supported by funding from multiple donors, WFP activities have employed more than 75,000 vulnerable Armenians while creating an infrastructure necessary for income generation. In 1999, USAID was the single largest contributor to this activity, which employs more people than any other non-governmental source in Armenia. In fall 2000, WFP plans to expand its food-for-work activities to reach an additional 60,000 Armenians.

Georgia: USAID has focused on providing humanitarian assistance for the most urgent basic needs of vulnerable households in Georgia, while steadily decreasing the level of aid and creating greater income and employment opportunities for these households. USAID provided supplementary food aid, hygiene articles and agricultural inputs to social institutions; and home care to the most vulnerable internally displaced persons (IDPs); and supported feeding kitchens for 4,000 pensioners. USAID responded to the May 1998 unrest in Gali by supporting the emergency rehabilitation of shelters and schools, the distribution of non-food emergency commodities, and the delivery of emergency health and nutrition support to newly displaced persons from the region through February 1999. In winter 1998-99, the Georgia Winter Heating Assistance

Program (GWHAP) provided a winter electricity subsidy to more than 250,000 vulnerable individuals. The USAID-funded Sukhumi Health Services Project provided training to the maternity hospital staff in the use of disinfectants and developed and distributed an essential medicine reference manual. USAID also supported IDP assistance provided by the WFP in Samegrelo, as well as the WFP's regional aircraft operations, which provide safe air service for diplomatic missions and humanitarian organizations in the region. Throughout FY 1999, USAID continued to provide health, shelter and economic opportunity support to IDPs through programs that emphasized community participation and mobilization. USAID funds under the Congressional directive to support victims of the Abkhazia conflict assisted vulnerable households in meeting their own basic needs through the creation of small businesses. This directive also funded the Georgia Assistance Initiative (GAI), a new activity that uses sectoral interventions to empower target populations, local communities, and local non-governmental organizations and strengthen the capacity of the government to respond to crises. Another USAID-funded project provided vulnerable youth with opportunities for personal growth and psycho-social rehabilitation in Tbilisi and Sukhumi; in FY 1999, the project was extended for two years and expanded to include Zugdidi. USAID focused its health-sector interventions in Georgia on primary health care and reproductive health.

Azerbaijan: In FY 1999, USAID funded the Azerbaijan Humanitarian Assistance Program (AHAP) implemented by Mercy Corps International (MCI), which included economic opportunity, shelter and health programs. With funds congressionally earmarked to support the victims of the Nagorno-Karabakh conflict, a new activity was started within AHAP that integrates interventions in community development, economic opportunity and health for frontline communities to attract IDPs back to their homes and help keep other residents from becoming IDPs. Funds under this earmark were also used to support community development in the frontline district of Barda and to support a program to resettle IDPs. In February 1999, the Government of Azerbaijan took a significant step forward by agreeing to work toward the resettlement of IDPs, and to help improve the living conditions and economic opportunities of IDPs who can not be resettled at this time.

Tajikistan: USAID funding contributed to the introduction of new agricultural development methods that dramatically increased food self-sufficiency by increasing wheat and potato yields. With USAID support, the United Nations Office for Project Services (UNOPS) implemented over 300 local development and community participation projects in Tajikistan. In the Karategin Valley, UNOPS projects have employed over 1,800 former civil war combatants. In southwest Tajikistan, projects ranged from upgrading a 150-bed hospital to providing potable water to the city of Kulyab. USAID-funded micro-financing has an overall return rate of over 90 percent for all loans, and similar results are expected for a micro-financing project initiated in Tajikistan in FY 1999. A USAID grant to CARE supported the development of a farmers' association for over 8,000 farm families in Leninski District. By providing access to improved agricultural inputs, improved farming techniques, and better market information, this project has had a positive impact on the livelihoods of the participating farm families. In addition, USAID responded to widespread flooding in the Aini and Osht Districts in spring 1999 by providing relief assistance. Despite positive developments in implementing the peace accords and the ongoing election process, outbreaks of violence continued in Tajikistan in FY 1999. In October 1998, the USAID Country Program Officer and the U.S. staff of the U.S. Embassy in Dushanbe were forced to move to Almaty, Kazakhstan, due to security concerns. USAID programs continue to be managed in-country by local national staff, with guidance from U.S. personnel from Almaty, who make frequent trips to Dushanbe. In addition, a number of U.S. non-governmental organizations (NGOs) manage USAID-financed activities with full staffs resident in Tajikistan. In FY 1999, USAID awarded \$4.0 million in grants partnering organizations to work in Tajikistan for the next two years.

Ukraine and Belarus: The Counterpart Alliance for Partnership (CAP) continued to work in Ukraine and Belarus to develop and strength the capacity of indigenous NGOs to provide social services to vulnerable groups, to actively and effectively advocate for and influence public policy on behalf of citizen's interests, as well as to improve the legal and regulatory environment governing the NGO sector. In FY 1999, CAP awarded almost \$500,000 in grants to Ukrainian and Belarusian NGOs to support the independence of the elderly, create a safety net for children and youth, provide social services to disabled persons and their families, and create a supportive legal and regulatory environment for the NGO sector in these two countries. This program was extended for an additional two years.

Major Contractors and Grantees

Major contractors under this strategic objective included the following: the United Nations World Food Program (WFP), the Salvation Army, the International Federation of the Red Cross (IFRC), Save the Children Federation USA, the United Nations High Commissioner for Refugees (UNHCR), the International Rescue Committee (IRC), the American International Health Alliance (AIHA), the U.S. Centers for Disease Control and Prevention (CDC), the Johns Hopkins University, the Aga Khan Foundation, CARE; Counterpart International, Mercy Corps International (MCI), the United Methodist

Committee on Relief (UMCOR), the United Nations Office for Project Services (UNOPS), the International Center for Not-for-Profit Law (ICNL), the Christian Children's Fund, and Elwyn, Inc.

STRATEGIC OBJECTIVE 3.2: Improved sustainability of health and other social benefits and services

This objective addresses social aspects of market transitions, such as making labor markets more effective, improving education and training, reducing unemployment and poverty, and promoting better health. USAID assistance includes a range of policy reform initiatives and pilot activities to redefine governments' roles in the delivery of social services and benefits at the national and local levels, and to create conditions and incentives for an enlarged private-sector role in service delivery and financing. Intended results include the following:

- helping to implement consumer-oriented health services and efficient financing models to improve the quality of care and to maximize scarce health resources;
- building a cadre of health care leaders in the NIS equipped with modern clinical, management and public health skills to continue reforms without U.S. Government support;
- strengthening the capacity to combat and prevent infectious diseases;
- helping to restructure public housing subsidies to emphasize need-based allowances; and
- helping to formulate affordable, cost-shared social security, unemployment and health insurance systems.

Progress Made in FY 1999

Health and Health Care Reforms: Those health systems in the region that still retain the Soviet-era emphasis on specialized, facility-based care are in urgent need of reform. In Ukraine, USAID initiated a new primary health-care strategy in FY 1999. In Central Asia, USAID is continuing to promote family group practices, and the American International Health Alliance is initiating USAID-funded, community-based primary-care partnerships throughout the NIS, as well as developing management education partnerships to counteract the lack of management skills in the health sector.

Russia: USAID launched a Women's and Infant Health Strategy in FY 1999. The program will increase the public-health benefits of previous USAID investments in women and infant's health through partnerships and family planning programs. Activities under the new strategy will strengthen, and improve access to and demand for, high-quality reproductive-health, maternity and newborn services, including support for breastfeeding, training in neonatal resuscitation, crisis services for victims of domestic violence, and information and education for healthy lifestyles. In addition, USAID initiated its Assistance to Russian Orphans (ARO) Program in three Russian regions in FY 1999. ARO offers community-based, family-centered services that help families keep their children, promote foster-care alternatives to orphanages, provide community-based services that enable families to care for disabled or troubled children at home, and provide youths leaving institutions the skills needed to be able to live in communities. The USAID-funded Medical Technology Transfer Activity (MTTA) accelerated investment by the U.S. pharmaceutical firms Bristol-Myers Squibb and G.D. Searle in the production of critically needed pharmaceuticals in Russia. Both companies have completed the construction or expansion of "good manufacturing practice" facilities and are now producing and distributing high-quality pharmaceuticals for the Russian market.

Central Asia: In FY 1999, USAID funded a study on the replacement of abortion by contraception, which demonstrated that abortion rates are declining while contraceptive use is increasing in Kazakhstan, Uzbekistan and Kyrgyzstan. For many decades, abortion was the principal method of birth control in the Soviet Union. It is remarkable how rapidly the substitution of contraception for abortion seems to be occurring, with major shifts apparent in the space of less than a decade. USAID-funded women's health programs continue to play a major role in this transition.

Infectious Disease Programs: With USAID assistance, Kazakhstan's Ministry of Health dramatically improved its procurement process for anti-tuberculosis drugs. Its \$2 million tender was more transparent and competitive than previous ones, and resulted in higher-quality, lower-cost drugs to help Kazakhstan control its growing tuberculosis epidemic. USAID increased its focus on HIV/AIDS in the NIS in FY 1999, in an effort to control the epidemic in the region before it explodes. In Russia, HIV/AIDS education and prevention efforts were focused on the cities of Moscow and Saratov. In Ukraine, USAID worked on a joint \$4 million HIV/AIDS activity with the European Union; each organization has committed \$2 million to developing and implementing an information and prevention program. The leveraging of these funds is an excellent illustration of improved donor collaboration in the region. In addition, the publication of a manual on vaccine procurement in FY 1999 culminated five years of work by USAID's E&E, Global and Africa Bureaus, the World

Health Organization, and the European Union. By improving the vaccine procurement process in the NIS, the manual will contribute significantly to public health and to achieving vaccine self-sufficiency.

Labor Market and Pension Reform Programs: In FY 1999, USAID intensified its efforts to respond adequately to the difficult labor market conditions in the NIS. With USAID assistance, the U.S. Department of Labor continued to replicate active labor-market models. USAID assistance was also channeled through selected private-sector partners who specialize in areas of labor-market and employment-service reform. In Ukraine, for example, a USAID-funded project to revise and automate the national labor market database was completed in FY 1999. USAID also continued to support the reform of pension systems in a number of NIS countries. A successful USAID-sponsored pension reform program in Kazakhstan has drawn increasing attention from other NIS countries. USAID technical assistance is being widely used to design and implement a variety of approaches to pension reform.

Remaining Challenges

Notwithstanding the substantial progress being made by some NIS countries with assistance from USAID and other donors, epidemiological and systemic trends in the NIS region remain disturbing. The incidence of HIV/AIDS, tuberculosis and multi-drug-resistant tuberculosis continues to increase exponentially, and progress towards increased program funding and health-sector reforms remains slow in comparison to the magnitude of these problems. Some of the factors impeding USAID's progress towards meeting these objectives are listed below:

- Health and social-sector programs continue to be the focus of congressional earmarks and directives. While these have helped focus attention on health and social problems, they limit USAID's programmatic flexibility. To address this situation, the E&E Bureau and NIS Missions will seek to familiarize the U.S. Congress with USAID's long-term sectoral strategy.
- There is a shortage of tuberculosis implementation specialists capable of designing and implementing internationally approved control programs in the NIS. The expansion of directly observed, therapy short course (DOTS) programs in NIS by USAID and other donors will be slow until this problem is fully addressed.
- Progress towards systemic health reform has been complicated by the continuing devolution of health-sector responsibilities from central governments to regions and municipalities that are unprepared to carry out these responsibilities. USAID and other donors thus must work with an expanding number of inexperienced policy, program, service-delivery and finance entities at the local level.
- While health and social-sector issues are attracting more attention in USAID Missions and in Washington, a shortage of USAID technical staff with the necessary expertise, particularly direct-hires, remains an impediment. Concerted efforts are under way to increase USAID social-sector specialists both in Washington and in the field.

In FY 2000, the E&E Bureau expects to finalize a Social Transition Strategy. The draft strategy revises the sectoral goal to read as follows: "Enhance the ability of all persons to enjoy a better quality of life within market economies and democratic societies." Strategic Objective 3.1 becomes "Strengthened response to emerging crises," and Strategic Objective 3.2 becomes "Increased health promotion and access to quality health care," thus giving health its own strategic objective. A new Strategic Objective 3.3 is being added: "Mitigation of adverse social impacts of the transition to market-based democracies."

Major Contractors and Grantees

Major contractors under this strategic objective include the following: the American International Health Alliance (AIHA), Abt Associates, the U.S. Department of Health and Human Resources (HHS), the World Health Organization (WHO), Holt International Children's Services, and Mercy Corps International (MCI).

STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS AND SPECIAL INITIATIVES

This assistance area includes the following types of programs:

- activities that do not contribute directly to other strategic objectives, but nevertheless serve strong Administration or Congressional interests or address an extraordinary circumstance requiring USAID assistance in a particular country;

- activities that relate directly to a particular ENI Bureau strategic objective, but are too limited in scope or impact to be designated as a separate strategic objective in the country program; and,
- cross-cutting activities that contribute to more than one strategic objective, such as general training.

In FY 1999, the two major activities carried out under this strategic assistance area were the Eurasia Foundation's grant-making activities, and training carried out under USAID's Global Training for Development (GTD) Project. Please see the Eurasia Foundation and GTD sections in Part III of this report.

The table on the next page shows the objectives pursued by each USAID country program in FY 1999:

USAID / E&E STRATEGIC OBJECTIVES IN THE NIS - FY 1999

	1.1	1.2	1.3	1.4	1.5	1.6	2.1	2.2	2.3	3.1	3.2	4
Armenia		X	X	X	X		X	X		X	X	
Azerbaijan			X				X			X		X
Belarus												X
Georgia	X	X	X	X	X		X	X	X	X		
Kazakhstan		X	X	X	X*	X*	X		X		X	X
Kyrgyzstan		X	X	X	X*	X*	X		X	X		X
Moldova	X	X	X	X	X		X					
Russia			X	X		X	X	X			X	
Tajikistan			X		X*	X*	X			X		
Turkmenistan		X	X		X*	X*						X
Ukraine	X	X	X	X	X	X	X	X	X		X	
Uzbekistan		X	X	X	X*	X*	X				X	X

* In FY 1999, USAID was pursuing Strategic Objectives 1.5 and 1.6 on a regional basis in the Central Asian countries.

KEY TO USAID / E&E STRATEGIC OBJECTIVES

- 1.1 Privatization
- 1.2 Fiscal Reform
- 1.3 Strengthening Private Enterprises
- 1.4 Financial Sector Reform
- 1.5 Sustainable Energy Systems
- 1.6 Environmental Management

- 2.1 Citizen Participation
- 2.2 Rule of Law
- 2.3 Local Government

- 3.1 Reduced Human Suffering
- 3.2 Sustainable Social Services

- 4 Cross-Cutting Activities and Special Initiatives

TRADE AND INVESTMENT PROGRAMS

U.S. EXPORT-IMPORT BANK (EX-IM BANK)

In FY 1999, demand for Ex-Im Bank financing support for U.S. exports to countries in the NIS was sharply depressed in the aftermath of the August 1998 Russian financial crisis, which had a severe impact on commercial activity in the entire region.

As a result, medium and long-term loan, guarantee, and insurance authorizations by Ex-Im Bank fell from \$1.2 billion in FY 1998 to \$261 million in FY 1999, nearly all of which were concentrated in Uzbekistan. The program budget cost charged to Ex-Im Bank's appropriation for NIS activity in FY 1999 was \$20 million.

Uzbekistan: Ex-Im Bank approved four long-term guarantee transactions totaling \$256 million in Uzbekistan in FY 1999. One guarantee, for \$94.5 million, supported the sale of two Boeing B-757 commercial jet aircraft to Uzbekistan Airways. The other three transactions, which totaled \$162 million, supported major sales of agricultural tractors, equipment and technology for a battery manufacturing plant, and earthmoving equipment for use in phosphate mining.

Kazakhstan: In FY 1999, Ex-Im Bank approved two relatively small medium-term guarantee transactions totaling \$4.2 million. The notable feature of these transactions was that both involved commercial banks in Kazakhstan as obligors, and did not rely on a government repayment guarantee. At present, Kazakhstan is the only NIS country where Ex-Im Bank's short and medium-term programs are open on a regular basis in the private sector. However, economic conditions in all NIS countries are kept under regular review and, as circumstances permit, Ex-Im Bank expects to see increasing opportunities to work with the private sector in countries in the region. Also, under its Project Finance Program, Ex-Im Bank is able to consider appropriately structured and secured transactions on a limited-recourse basis, looking to the earnings of the project to assure repayment of the debt, without the need to rely on government guarantees.

Caspian Finance Center: In June 1999, Ex-Im Bank stationed a senior staff representative at the interagency Caspian Finance Center at the U.S. Embassy in Ankara. Ex-Im Bank's representative is working with staff from the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (TDA) to facilitate financing of U.S. exports to major projects in Turkey and the Caspian Sea region. The Center is particularly focusing on financing opportunities connected with the Baku-Ceyhan oil pipeline from Azerbaijan through Georgia to the Mediterranean coast of Turkey, and the Trans-Caspian Pipeline to transport natural gas from Turkmenistan, through Azerbaijan and Georgia, to Turkey.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC provides political risk insurance to U.S. investors to mitigate the risks of overseas business ventures in developing countries and emerging markets. In Russia and other NIS countries, the demand for insurance has been greatest from U.S. companies investing in the telecommunications, financial services and manufacturing sectors. Russia continues to dominate OPIC's business in this part of the world both in terms of aggregate insurance issued and number of projects. OPIC clients continue to struggle with the difficult operating environment in the NIS, and OPIC is actively working to avert a number of potential claims from clients in Russia and other NIS countries.

In FY 1999, OPIC provided insurance to two new projects in the NIS.

- OPIC committed to provide up to \$250,000 in political risk insurance to the International Scientific Products project in Russia, which involves the production of optical equipment.
- OPIC committed to provide up to \$200 million in political risk insurance to the Leap Wireless/Qualcomm, Inc. telecommunications project in Russia.

In FY 1999, OPIC Finance committed to three projects in the NIS.

- \$30 million in financing to Avalon International, LLC, for an oil and gas development project in Russia.
- up to \$18 million in financing for the Armenia Hotel project, which is sponsored by A.K. Development, LLC.
- up to \$250,000 in financing for the Russian Dairy Farms project in Russia, which involves an on-lending facility for small dairy farmers. This agribusiness project is sponsored by Russian Dairy Farms, Inc.

Early in 1999, OPIC joined the U.S. Trade and Development Agency (TDA) and the Export-Import Bank of the United States (Ex-Im Bank) in establishing the Caspian Finance Center, which is described in the Ex-Im Bank section above. By virtue of its location, the Center greatly facilitates the travel of OPIC staff to Kazakhstan. Moreover, using Istanbul as a hub for business development, OPIC has been able to use the significant presence of U.S. companies in Turkey to identify potential projects in Kazakhstan and the Central Asia region being undertaken by U.S. investors and their Turkish joint venture partners.

Demand for OPIC products among companies interested in investing in the NIS gradually grew and almost returned to pre-crisis levels by the end of FY 1999. OPIC currently has 73 potential projects in various stages of development for Russia. These deals are in a number of new sectors such as hotels, manufacturing, and transportation, as well as natural resources. Interest is also picking up for investment in other countries in the NIS. OPIC has 65 projects in various stages of development for NIS countries other than Russia. Most of this interest is focused on oil and gas, general manufacturing and infrastructure lending.

U.S. TRADE AND DEVELOPMENT AGENCY (TDA)

The U.S. Trade and Development Agency (TDA), a small, independent federal agency, moved quickly to establish its program in the region after the breakup of the Soviet Union, and provided its first feasibility study grant in 1992. Since that time, TDA's NIS program has continued to grow. Much of TDA's activity in the NIS has been concentrated in Russia, but its regional team has made a continuing effort to increase TDA's program in Central Asia, the Caucasus, and Ukraine. In the last year, TDA became particularly active in the Caspian region, supporting several projects in the oil and gas sector. In the eight years since it opened for business in the NIS, TDA has funded studies on over 200 major infrastructure and industrial projects. These projects present export opportunities of more than \$5 billion for U.S. companies. Exports of U.S. goods and services related to those projects already total about \$600 million. In FY 1999, TDA obligated over \$9.9 million in program funds for the NIS, most of which was for 20 feasibility studies on projects in the areas of oil and gas development, health care, power generation, food processing, and information technology.

Russia: Concern over the effects of the August 1998 financial crisis lessened during the course of FY 1999, and as a result, demand for TDA funding in Russia began to steadily climb once again. As the year progressed, TDA maintained a sizeable portfolio of projects. Proposal submissions were primarily from medium-sized and large U.S. companies that have adopted a long-term investment strategy and are determined to weather Russia's political and economic ups and downs. The project pipeline for FY 2000 includes the deployment of remote handling equipment for the cleanup of environmental remediation at the Mayak Chemical Plant in Chelyabinsk, the establishment of a pharmaceutical clearinghouse in Russia, and the establishment of custom farming service centers throughout Russia. Highlights of FY 1999 projects include a grant of \$500,000 for a feasibility study to develop a financial management system in the Municipal Treasury of St. Petersburg, a \$198,000 grant for a feasibility study to introduce airport information technology and systems integration upgrades at Sheremetyevo Airport in Moscow, and a \$209,000 grant for a feasibility study to upgrade an existing meat-processing facility in Moscow.

Central Asia: TDA's activities in Central Asia in FY 1999 included high-visibility support for the U.S. Government's Caspian Basin energy policy. TDA built on its earlier grant to the Government of Turkmenistan for a feasibility study on the Trans-Caspian Gas Pipeline, providing an additional \$745,000 for technical assistance in the negotiation of agreements for implementation of the project. In addition, TDA provided \$500,000 to partially fund a study on the construction of a gas pipeline to Kazakhstan's new capital of Astana. Also in Kazakhstan, TDA provided partial funding (\$550,000) for a study on the establishment of an oil and gas exploration and production information database. In other sectors, TDA provided partial funding (\$450,000) for a study on the construction of an aluminum smelter at Mery, Turkmenistan, and in Uzbekistan, TDA is providing partial funding (\$386,065) for a study on the construction of an emergency medical center in Tashkent. Through the U.S. Government's trust fund at the World Bank, TDA provided funding (\$585,710) for consultancies connected with a Bank-financed agricultural sector development project in Uzbekistan.

Caucasus: TDA activities in Georgia in FY 1999 included the provision of a \$205,000 grant to the Georgian International Gas Corporation for technical assistance in negotiating its segment of the Trans-Caspian Gas Pipeline project. Also in Georgia, TDA is providing partial funding (\$200,000) for a study on the establishment of a fruit and vegetable processing facility. In Azerbaijan's oil and gas sector, TDA provided partial funding (\$500,000) for a study on improvements at a refinery in Baku and supported a study (\$400,000) for the modernization of a chemical plant. In addition, TDA provided partial funding (\$375,000) for a study on the construction of a cardiovascular center in Baku.

Ukraine: TDA is providing partial funding (\$240,900) for a study on conversion of the ZALK aluminum smelter in Zaporizhzhya to pre-bake technology.

ENTERPRISE FUNDS

The Enterprise Fund concept, which grew out of the U.S. Government's commitment to help develop private sectors in the Central and East European countries from 1989 on, was extended to the NIS after the collapse of the former Soviet Union in 1991. The U.S. Government-funded 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, and equity investments, and to support feasibility studies, technical assistance, training, insurance, guarantees and other mechanisms to achieve the above-mentioned 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. Private boards of directors set policy and oversee the management of the Funds with almost complete independence from the U.S. Government. Some boards have performed extremely well, while others have had mixed results. The following table shows the basic financial status of the Enterprise Funds and other venture capital funds as of the end of FY 1999:

FINANCIAL STATUS OF U.S. GOVERNMENT-BACKED FUNDS AS OF SEPTEMBER 30, 1999 (millions of dollars)			
	AUTHORIZED	OBLIGATED	EXPENDED
ENTERPRISE FUNDS			
The U.S.-Russia Investment Fund	440	211	170
Western NIS Enterprise Fund	150	104	80
Central Asian - American Enterprise Fund	150	111	101
SUBTOTAL	740	426	351
EBRD SMALL BUSINESS FUNDS			
Russia Small Business Fund	30	30	13
Lower Volga Regional Venture Fund	20	20	8
TRANS-CAUCASUS FUND	25	25	9
TOTAL	815	501	381

Western NIS Enterprise Fund (WNISEF)

The WNISEF was established in 1994 to accelerate private sector development in Ukraine, Moldova and Belarus. Most investments have been in Ukraine. The WNISEF also has an office in Moldova, where it has made three investments and committed to two others. While Moldovan economic policies have been the most progressive of the three countries, Moldova's economy remains in recession, due to its close ties to Russia, Ukraine and Romania. The WNISEF has a representative office in Belarus, but has made no investments or loans there, due to the lack of reform. To support the development of the private sector, the WNISEF provides capital and management tools for restructuring and expanding medium-sized private enterprises, thus creating jobs and wealth for the region. The WNISEF also seeks to demonstrate to the global financial community that profitable activities can be undertaken in the Western NIS region, with the goal of attracting private investment capital. The WNISEF also helps small business through its small business loan program, and contributes to policy reforms in a variety of ways.

As of September 30, 1999, the WNISEF's direct investment program had committed approximately \$75 million to 22 medium-sized companies employing a total of 9,200 people. WNISEF portfolio companies are typically involved in the production and distribution of basic consumer goods, such as construction materials, food products, packaging, and agricultural services and supplies. The key to creating profitable companies is finding good managers; the Fund is creating a new entrepreneurial class who supports free market, democratic reforms in these countries. As of the end of FY 1999, the WNISEF's Small Business Loan Program had made 59 loans totaling \$2.5 million to small businesses employing about 1,600 people. Only 16 loans were still active, with \$400,000 outstanding. About \$1.6 million had been repaid, and \$500,000 had been written off.

The economic difficulties that followed the August 1998 crash of the Russian economy depressed the Ukrainian economy in 1999. In FY 1999, the WNISEF added only two companies to its portfolio in Ukraine and increased its investments in four of its existing companies. Individual company results in FY 1999 vindicated the WNISEF's investment strategy of making direct investments in basic consumer-products companies with excellent managers. In spite of the continued recession, the market for their products improved in FY 1999, as falling exchange rates encouraged consumers to avoid costly imports and buy domestically produced goods. As a result, WNISEF portfolio companies, which had learned to provide least-cost, quality goods, saw sales hold steady or increase during the year. The WNISEF's 18 portfolio companies also exerted a growing economic impact on their communities, with estimated sales growing to about \$141 million in FY 1999, compared to \$70 million in FY 1998, and \$30 million in 1997. The WNISEF has been instrumental in attracting other capital to the region. WNISEF's portfolio companies have received approximately \$41 million in loans from third parties, ranging from the European Bank for Reconstruction and Development (EBRD) to the Ukrainian State Innovation Fund. In the area of policy reform, the WNISEF's president was instrumental in establishing the Finance and Investment Committee of the American Chamber of Commerce (ACC), which promotes reform in the development of capital markets and the flow of investment capital in Ukraine. The WNISEF also began to organize a Legal Policy Committee under the auspices of the ACC to identify legal issues related to businesses.

While the WNISEF's companies are doing well, the Fund itself is using up capital while investing for long-term capital gains to be realized by the sale of its investments rather than current returns. However, few investors currently want to buy Ukrainian companies because the general environment for foreign investment has serious deficiencies that constrain growth and the potential value of the WNISEF's investments. As the WNISEF completes its fourth full year of operation, it has become increasingly clear that this is a complex and expensive effort that it will take years to come to fruition. Nevertheless, the WNISEF has gained a lot of experience and is positioned to grow rapidly and become increasingly influential, provided Ukraine makes the right decisions about its economy. In FY 2000, the WNISEF plans to acquire interests in three banks that could mobilize large amounts of capital for small and micro enterprises in Ukraine and Moldova. Joint investments with the EBRD, the International Finance Corporation (IFC), and others are envisioned in two small business/micro-finance banks. Beyond FY 2000, the WNISEF intends to establish a private equity fund approximately equal in size to the current U.S. Government-backed fund.

Central Asian - American Enterprise Fund (CAAEF)

The Central Asian - American Enterprise Fund (CAAEF) was created in 1994 to promote the creation of small and medium-sized businesses in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The CAAEF has a total authorization level of \$150 million, of which \$111 million has been obligated to date. In FY 1999, the macro-economic environment continued to deteriorate in several of the Central Asian countries, where government monopolies, central planning, and bureaucratic over-regulation have resulted in an unfavorable investment climate and a weak private sector. In Kazakhstan, currency devaluation contributed to higher inflation, and the number of disputes between the Kazakhstani Government, the private sector, and foreign investors was increasing. In Kyrgyzstan, currency devaluation, incomplete privatization, and a weak, under-capitalized banking system has all but precluded direct foreign investment. The business environment is even more difficult in Tajikistan, and Turkmenistan's economy remains dominated by the country's authoritarian government, which is hostile to private enterprise. The CAAEF has not had any new activity in Uzbekistan since August 1998. While there is a small but dynamic private sector in Uzbekistan, government policies and limited currency convertibility represent major obstacles to investment. The CAAEF continues to support its major investments, but has made no new loans in Uzbekistan.

The CAAEF's Board changed its senior-level management in 1998 and 1999 and undertook two strategic reviews. Many of the CAAEF's investments have been written off, and few new direct equity investments are envisioned. As of June 1999, the CAAEF's investment portfolio was approximately \$69.2 million at cost, with a current value of approximately \$38.7 million, yielding a loss of approximately \$30.5 million since the Fund's inception. Most of the CAAEF's direct equity investments, small enterprise lending, and micro-enterprise activities have been in Kazakhstan, Turkmenistan and Uzbekistan. As of June 1999, the Fund's large equity investments were valued at \$21.1 million.

While the CAAEF's equity investment program has suffered serious losses, its Small Lending Program and Micro-Enterprise Lending Program have been much more successful. The CAAEF has made \$29 million in small and medium-sized loans, of which \$13 million has been repaid. Write-offs have totaled only \$1.6 million over the life of the program, and loan delinquencies have declined from 27 to 13 percent. In addition, the CAAEF has invested \$3.6 million in micro-lending in Kazakhstan and Kyrgyzstan. In Kazakhstan, approximately 480 loans have been made, with 83 percent having

been repaid and less than one percent having defaulted. In Kyrgyzstan, the program has made 350 loans, of which 30 percent have been repaid, and less than one percent defaulted.

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

TUSRIF was created in April 1995 by merging the Russian American Enterprise Fund (RAEF) and the Fund for Large Enterprises in Russia (FLER). In 1999, a new private company, Delta Capital Management, was created to manage TUSRIF. In addition to its Moscow headquarters and New York office, Delta Capital has offices in Yekaterinburg (in the Urals region), Khabarovsk (in the Russian Far East), Rostov-on-Don (in southwest Russia), and St. Petersburg (in Northwest Russia), as well as representatives based in Yuzhno-Sakhalinsk and Vladivostok. As of October 31, 1999, Delta Capital had funded \$32.07 million in loans to 1,300 small businesses and individuals and \$112.89 million in direct financing to 30 firms. The sectoral distribution of this direct financing is as follows: \$5 million for agribusiness; \$12.3 million for broadcasting/publication; \$19.22 million for consumer products; \$15.01 million for manufacturing; \$17.08 million for natural resources; \$8.88 million for retailing; \$7.65 million for telecommunications; \$7 million for leisure; \$18.85 million for health-care/pharmaceuticals; and \$1.77 million for other sectors. In addition to providing capital to its portfolio companies, Delta Capital is providing technical assistance for management training, information system development, and advisory services. Delta Capital has started focusing on financial services and has established a residential mortgage program and a leasing company, and is working with private banks to improve services to small businesses and individuals.

Lower Volga Regional Venture Fund (LVRVF)

The LVRVF is one of 12 European Bank for Reconstruction and Development (EBRD) Russian regional venture funds. The LVRVF is part of an initiative agreed upon by the G-7 governments and the European Union at the Tokyo Summit in July 1993 to support enterprises privatized under the Russian Government's mass privatization program. The LVRVF began operations in May 1995 with a \$30 million capital commitment from EBRD, a \$3 million commitment from the fund manager, and a pledge of \$20 million from USAID to cover technical assistance and operating costs during the ten-year life of the fund. The LVRVF's primary areas of operation are the Volgograd, Samara and Saratov regions, and it has adapted an early-stage venture capital investment strategy to the Russian business environment. The LVRVF actively participates in corporate governance and invests in above-average growth companies. Seventy-five percent of the Fund's capital must be invested in the Lower Volga Region and in newly privatized companies. In 1999, the Board of the LVRVF voted to change the Fund's management to Russia Partners, LLP, a division of Siguler-Guff of New York, which has begun to restructure the portfolio and has put senior management in place in the region. As of June 30, 1999, the LVRVF's cumulative investments amounted to \$17.08 million.

Trans-Caucasus Enterprise Fund

In FY 1996, the U.S. Congress earmarked \$15 million for the creation of a Trans-Caucasus Enterprise Fund to promote regional cooperation and private-sector development in Armenia, Azerbaijan and Georgia. An additional \$10 million was earmarked for this purpose in FY 1997, along with the authority to invest through other institutions. Beginning in September 1997, USAID provided Shorebank Advisory Services (SAS) with a \$20 million grant to implement a five-year Trans-Caucasus SME Finance Program. SAS has also mobilized \$9.4 million in complementary funding from the International Finance Corporation (IFC) and expects to attract further funding from the IFC, local savers, financial intermediaries and other investors. The primary focus of the Trans-Caucasus SME Finance Program is to create and promote financial products and institutions that meet the needs of small businesses and entrepreneurs. Non-financial enterprise development efforts such as training and networking are used to complement financial-sector initiatives. As of September 1999, offices had been established and lending operations had begun in each of the three countries. SAS initiated operations in Georgia in March 1998 through local partner banks. To date, 48 loans totaling nearly \$1.9 million have been made in amounts ranging from \$10,000 to \$40,000. SAS began operations in Azerbaijan in March 1998; to date, 25 loans totaling \$1.1 million have been disbursed, with an average loan size of \$48,000. In Armenia, SAS is currently working with one partner bank and is conducting a due diligence examination of two other banks.

The micro-lending program implemented by the Foundation for International Community Assistance (FINCA) began operations in Georgia in May 1998 and has far exceeded targets and expectations, with nearly 4,000 clients and \$1.36 million in lending, and an average loan size of approximately \$300. FINCA's micro-lending operations in Azerbaijan began in April 1998. Through June 1999, when the program was suspended pending resolution of taxation issues, FINCA had worked with 2,895 clients and disbursed nearly \$600,000 in loans. FINCA began operations in Armenia in June 1999,

and has had more than 400 clients and has disbursed over \$46,000 in loans, with an average loan size of \$110.

In Georgia, the Developing Enterprise Loan Program (DELP), which makes available loans ranging in size from \$1,000 to \$12,000, has made 22 loans totaling \$86,500 since March 1999, with an average loan size of just under \$4,000. Due to problems with the local banking sector in Azerbaijan, SAS has decided to make direct loans through a local affiliate office and is working on obtaining a limited banking license through the Central Bank of Azerbaijan. The DELP Program was initiated in Armenia in mid-June 1999; SAS has partnered with World Vision to implement this program. To date, most of SAS's efforts have focused on strengthening World Vision's lending operations before the disbursement of loans. To date, six loans have been approved, with \$13,000 disbursed and another \$17,000 awaiting disbursement.

EBRD Russia Small Business Fund

At the Tokyo G-7 Summit in 1993, the G-7 and Russian Governments asked the EBRD to establish and manage a Russia Small Business Fund (RSBF) through contributions from the EBRD, G-7 members and Switzerland. The RSBF provides loans to small and micro-enterprises through selected Russian commercial banks, with two main objectives: providing small business with finance and strengthening the capacity of the Russian banking sector to effectively lend to small businesses. The U.S. Government pledged \$30 million to the RSBF at the Tokyo Summit. These funds primarily financed technical assistance to the banks implementing the program. In 1998, the U.S. Government agreed to contribute an additional \$5 million in loan capital and stipulated that at least 50 percent of these funds go to the Regional Initiative (RI) regions of Samara, Novgorod, and the Russian Far East. Over a six-year period, USAID's \$35 million has leveraged a \$300 million RSBF, which has disbursed a total of 28,000 loans to Russian enterprises. The Russian banking crisis notwithstanding, the RSBF disbursed 700 loans in August 1999, and the program intends to return to levels of over 1,000 loans per month in the near term. The RSBF makes available loans of up to \$125,000 with maturities of up to three years. Such financing has not been previously available to small firms from local banks. The RSBF has also invested in small-enterprise equity funds in Nizhniy Novgorod and St. Petersburg. These funds, managed on behalf of the EBRD by Small Enterprise Assistance Funds (SEAF), invest a combination of equity and long-term debt in small businesses in the production or service sectors, with a maximum investment of \$700,000. The main banks participating in this program are Sberbank, Petrovsky Bank, NBD, and the Far Eastern Bank. The EBRD is currently setting up a new financial institution for funding micro- and small enterprises through the RSBF. The EBRD will provide \$6 million in financing to help fund the reorganization and re-capitalization of the existing Russian Project Finance Bank. The EBRD has also provided a \$30 million loan to the new bank through the RSBF, for lending to micro- and small enterprises. Work to set up the new institution began before the August 1998 Russian financial crisis. The new bank will provide micro-credits of up to \$20,000, with maturities of up to two years. In the first year, the bank's outstanding loan portfolio is expected to be some 1,500 loans totaling \$25 million, with 25,000 loans totaling \$300 million expected in the five-year period. In addition, small loans will be made available in amounts up to \$125,000, with maturities of up to three years.

Defense Enterprise Fund (DEF)

In FY 1995, the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program shifted the focus of its defense conversion efforts from the direct creation of joint ventures to support for joint projects through the Defense Enterprise Fund (DEF). The U.S. Congress established the DEF to assist Russia, Ukraine, Kazakhstan and Belarus in privatizing their defense industries and converting their military technologies and capabilities to civilian activities. In practice, the DEF provides loans and grants and makes equity investments in joint defense conversion projects involving U.S. companies and NIS enterprises formerly involved in producing weapons of mass destruction (WMD). These activities support the U.S. national security objectives of eliminating weapons production capability and promoting the development of democratic, market-based systems in the NIS.

In FY 1997, funding responsibility for the DEF was transferred from the U.S. Department of Defense to the U.S. Department of State under the FREEDOM Support Act. The DEF has received a total of \$66.7 million from the Departments of Defense and State. While no Defense Department funding has been appropriated for the DEF since FY 1995, and no State Department funding since FY 1997, the DEF's investments have been effective in contributing to the transformation of the former Soviet military industrial complex. The DEF has invested in a total of 10 projects in Russia, two in Kazakhstan, and one in Ukraine. Several DEF investment projects have been successfully harvested and, despite the August 1998 Russian financial crisis and its spill-over effects throughout the NIS, most remaining projects continue to perform adequately. Due to difficulties related to privatization laws and human-rights abuses in Belarus, the DEF has been unable to invest in projects in that country. Under new management in 1999, the DEF has invested almost all of the U.S. Government funds provided to it, and is now seeking to raise additional capital.

DISTRIBUTION OF DEF ACTIVITY BY COUNTRY AS OF SEPTEMBER 30, 1999

<u>COUNTRY</u>	<u>PROJECTS</u>	<u>APPROVED COMMITMENTS</u>	<u>AMOUNTS FUNDED</u>
Ukraine	1	\$2.50m	\$0.81m
Kazakhstan	2	\$6.05m	\$6.05m
<u>Russia</u>	<u>9*</u>	<u>\$34.84m</u>	<u>\$31.51m</u>
TOTAL	12	\$43.39m	\$38.37m

(*Excludes a \$2.8 million project with Caterpillar and NevaMash that the DEF has already harvested.)

Russia: The DEF has continued and expanded the defense conversion efforts begun in Russia by the U.S. Department of Defense by providing financial support through loans, grants and equity investments for the demilitarization of industries and conversion of military technologies and capabilities into civilian activities. The DEF selects enterprises qualified for funding—such as privatized enterprises or spin-offs, defense enterprises or laboratories, with a priority placed on those enterprises previously engaged in WMD-related activities—that have partnerships with U.S. or other Western companies. The DEF has funded several successful conversion projects in Russia and has also helped the Russian Government and Russia's defense industry understand the requirements that conversion projects must meet in order to attract private-sector venture capital. As a direct result of DEF investments in Russia, a former manufacturer of nuclear submarine components is now building excavation equipment, and satellite tracking technology is now employed in private telecommunications applications.

Kazakhstan: The U.S. Department of Defense provided a total of \$7.0 million to the DEF for equity investments, grants and loans in joint ventures with Kazakhstani former WMD enterprises. The DEF has invested \$3.0 million in a Lucent project to create a second national telecommunications carrier using satellite communications and \$3.0 million in a KRAS Group venture to manufacture and market printed circuit boards and consumer electronics.

Ukraine: The DEF has committed to invest up to \$2.5 million in Liform, a venture that is already reclaiming a large, low-cost supply of scrap aluminum, brass and other metals from military hardware for resale on the world market.

U.S. DEPARTMENT OF COMMERCE - BUSINESS DEVELOPMENT COMMITTEE INITIATIVES (BDCI)

The BDCI Program supports activities of the Business Development Committees (BDCs) established with Russia, Ukraine, Kazakhstan and Uzbekistan, which are the U.S. Government's primary vehicle for supporting expansion of trade and investment with these countries. Expansion of U.S. trade and investment ties with these countries not only benefits U.S. companies and creates jobs at home; it also helps promote these countries' transition to market-based economies and facilitates their integration into the international economic system. BDC activities are aimed at: (1) removing legal, regulatory, and practical impediments hindering trade and investment; (2) facilitating the conclusion and implementation of commercial projects; (3) developing contacts in key industries and regions; and (4) creating synergy between government and private-sector resources and initiatives.

In FY 1999, formal BDC sessions were held with Russia, Ukraine, Kazakhstan and Uzbekistan. In addition, a series of meetings were held with individual officials involved in the BDCs, and sessions of various sub-committees and working groups took place. In FY 2000, two formal meetings of the U.S.-Russia BDC, two meetings of the U.S.-Ukraine Committee on Trade and Investment, one meeting of the U.S.-Kazakhstan BDC and one meeting of the U.S.-Uzbekistan Trade, Investment and Energy Working Group are planned. Work programs adopted by the BDCs are being implemented on an ongoing basis.

The BDCI Program also supports efforts of the U.S. Ombudsman for Energy and Commercial Cooperation with the NIS and other programs to conduct commercial dialogue and expand bilateral trade and investment with those NIS countries with which the United States does not have BDCs. These efforts are expanding apace with U.S. commercial interests in the region. Major BDCI accomplishments and plans for future activities are described below.

U.S.-Russia BDC

Rule-of-Law for Business: Jointly formulated “Guidelines for Voluntary Codes of Business Conduct” for adoption by Russian companies were agreed by the BDC with Russian partner organizations, and disseminated at conferences and over the Internet. These guidelines were also explained at a workshop in Novgorod Oblast (Region), whose governor asked to use them in a pilot project. The guidelines also gained support at OECD and OSCE conferences held in Russia. In FY 2000, Russians will receive training in the United States and return to Russia to train companies that want to use the guidelines to improve their operations and business reputations. Interest in the guidelines has begun to develop in other regions and NIS countries and, as this process continues, the guidelines will be applied in new areas. Similar approaches are being used in developing projects on commercial dispute resolution, enforcement of court decisions, and corporate governance.

Commercial Taxation: U.S. BDC officials continued their advocacy efforts with Russian Government officials and State Duma (lower house of parliament) deputies for improved tax legislation. In the face of a continuing government-Duma stalemate, the BDC used meetings with tax officials and the Tax Working Group, which includes U.S. business representatives, the Ministry of Finance and the new Ministry of Taxes and Collections, to support administrative improvements, such as reducing the profits tax from 35 to 30 percent in 1999, and allowing regional tax credits.

Commercial Energy: Meetings of BDC officials with Russian Government and Duma officials concerned with oil and gas issues contributed to the enactment of production-sharing agreement (PSA)-enabling legislation, and to the addition of the Northern Territories and Sakhalin III (Mobil/Texaco) projects to the so-called “Law of Lists,” which enumerates projects eligible for PSAs.

BDC Industry Subgroups: Highlights of subgroup activities included the following: (1) Y2K conferences and the distribution of Y2K self-help kits to more than 200 government and business representatives in Vladivostok and Moscow; (2) industry-government-legislative branch consultations culminating in a memorandum from Russian participants to the Russian presidential administration recommending the veto of highly restrictive insurance legislation, which President Yeltsin subsequently vetoed; (3) consultations in Silicon Valley introducing the mayor of a leading Russian high-technology region, Zelenograd, and the chairman of the region’s Micro-Electronics Development Fund to methods for fostering growth and attracting U.S. companies; and (4) three seminars on Russia’s evolving standards regime.

Regional Commercial Cooperation: Despite the effects of the August 1998 financial crisis, the U.S. West Coast - Russian Far East Ad Hoc Working Group succeeded in gathering more than 200 Americans and Russians in Vladivostok for its annual meeting in June. Many projects made significant progress. A protocol including a detailed work plan for opening a U.S.-Russia-China transportation corridor was signed by representatives from each country, funding was obtained from the U.S. Trade and Development Agency (TDA) for completing a feasibility study for the construction of vessels to establish a new sustainable coastal fishery, and the Working Group’s Internet website and listserv became operational, as did a “partner regions” website. In addition, the Clear-Pac customs clearance project expanded operations beyond Vladivostok to Sakhalin, and obtained Russian State Customs Committee approval for technical specifications for software to create an automated clearance system. Based on interest from governors in the Russian Northwest and the Urals, as well as American business organizations, the BDC has offered to cooperate in hosting Russian business missions to the United States in FY 2000 and to explore use of working groups or other mechanisms for building commercial cooperation.

U.S.-Kazakhstan BDC

In FY 1999, the U.S.-Kazakhstan Business Development Committee met in Almaty with a focus on obtaining progress on the building blocks of U.S.-Kazakhstani commercial relations and reviewing progress made in a number of areas discussed in previous meetings, such as utilization of pre-arrival customs declaration regulations and the elimination of assessment of VAT on goods imported from CIS countries. The meeting resulted in Kazakhstani Government commitments to reduce the number of documents necessary to obtain a work permit for a foreign worker and to reduce work-permit fees, and to submit to the parliament the legislation necessary for accession to the World Trade Organization (WTO). The Kazakhstani Government subsequently formed a working group with the private sector to work on appropriate work-permit regulations and submitted a number of WTO-consistent pieces of legislation to parliament.

U.S.-Ukraine Committee on Trade and Investment (CTI)

The CTI held executive meetings in October 1998 and January 1999, during which members continued to negotiate resolution of longstanding U.S. business problems, identified systemic obstacles and agreed on a work plan to address standards and certification issues. Under the auspices of the CTI, U.S. health industry representatives met with a series of Ukrainian health officials to consider possible trade-facilitating measures regarding Ukraine's evolving regulatory system for devices and pharmaceuticals. Commerce Department staff organized a session on putting together an internationally acceptable business plan, which was held at a U.S.-Ukraine energy, trade and investment conference in Kharkiv in May 1999.

U.S.-Uzbekistan Trade, Investment and Energy (TIE) Committee

The TIE Committee met in Tashkent in May 1999. In the context of a worsening business environment in Uzbekistan, the U.S. side pressed for the fulfillment of previous Uzbek Government commitments to full currency convertibility and enactment of an oil and gas law allowing production-sharing agreements. U.S. Government representatives obtained several potentially important Uzbek Government commitments, including commitments to hold frequent meetings with the American Chamber of Commerce and to seriously consider its suggestions, to create a high-level mechanism to respond promptly to requests for effective implementation of the Foreign Investment Law's ten-year guarantee, and to seek solutions to ten company-specific issues raised by the U.S. side.

The Ombudsman's Dialogue with Central Asian and Caucasian Governments

The Commerce Department and the U.S. Ombudsman for Energy and Commercial Cooperation with the NIS conducted active dialogues on trade and investment development in Kazakhstan, Azerbaijan and Turkmenistan in October 1998; in Azerbaijan, Georgia and Turkmenistan in April 1999; and in Uzbekistan in May 1999. This dialogue also included a series of meetings in Washington with the State Minister and Speaker of the Parliament of Georgia, a former Kazakhstani prime minister and other NIS officials. The Ombudsman's dialogue urged specific measures for progress on energy development and transportation, as well as the development of business-friendly regimes that would facilitate the development of trade and investment.

In Georgia, in meetings with the President, Foreign Minister, and other senior leaders, the Ombudsman urged progress in the legal and regulatory environment, commercial tax reform and privatization, and lobbied on behalf of U.S. company projects. In Azerbaijan, in meetings with the president, prime minister and other officials, the Ombudsman sought commitments addressing issues of corruption, customs reform, market access and fair treatment for U.S. companies, particularly in the telecommunications sector. In Washington, the Commerce Department's BDC officer held several individual and joint meetings with the U.S.-Armenia Business and Investment Association, the American-Georgian Business Development Council and the U.S.-Azerbaijan Chamber of Commerce to develop ideas for regional cooperation. In meetings with the President and Deputy Chairman of the Government of Turkmenistan, the Ombudsman pushed for increased regional cooperation on energy issues, urged them to cooperate with the International Monetary Fund (IMF) and to seek WTO membership, encouraged movement on privatization and transparency in the tendering process, and advocated on behalf of U.S. companies.

BUSINESS AND ECONOMIC DEVELOPMENT PROGRAMS

U.S. DEPARTMENT OF COMMERCE - BUSINESS INFORMATION SERVICE FOR THE NIS (BISNIS)

The Commerce Department's BISNIS Program seeks to facilitate U.S.-NIS trade and investment by providing U.S. companies with information and guidance on regional, sector-specific, and practical aspects of doing business with the NIS; exposing NIS businesses, organizations and officials to U.S. business community priorities and interests; using technology to provide access to commercial information and resources; and maximizing the results of other U.S. Government and multi-lateral assistance efforts through active collaboration.

In FY 1999, BISNIS facilitated more than \$240 million in U.S.-NIS trade and investment transactions; U.S. companies gained faster, easier, and more direct access to 800 new NIS commercial opportunities, as well as expanded information on select leads; U.S. companies gained new tools for succeeding in NIS markets; and U.S. Government-funded assistance programs identified dozens of participants and resources through BISNIS referrals.

BISNIS Trades & Tenders and Search for Partners: In FY 1999, these services screened and distributed nearly 350 trade leads and over 425 partner leads, revised the business-lead application form in accordance with U.S. company needs in assessing potential opportunities, shortened by up to two weeks the turnaround time for lead distribution, implemented a pilot program providing World Wide Web links to business plans for select published leads in Georgia, and increased the customization of lead distribution to U.S. companies through industry groups.

BISNIS Online Website: In FY 1999, *BISNIS Online* redesigned its website and established a new web address (www.bisnis.doc.gov). These improvements resulted in an average of five to ten additional reports per day to *BISNIS Online*.

BISNIS Market Reporting: BISNIS expanded its Russian regional market reporting by adding new representatives in Yekaterinburg and Samara, and by focusing on Central Russian regions besides the Moscow Region. BISNIS developed several new series of practical market reports, including crisis updates for Russia, monthly commercial updates for nine large Russian regions, and practical guides on opening an office in specific regions.

BISNIS Bulletin: In FY 1999, the *BISNIS Bulletin* addressed several time-sensitive issues, such as the after-effects of the August 1998 financial crisis, opening offices in various NIS cities, the status of Y2K preparations in the NIS, and avoiding credit card fraud. While continuing to cover Moscow, which accounts for 75 percent of U.S. trade with the NIS, the *BISNIS Bulletin* highlighted regions beyond Moscow, and other NIS countries besides Russia. In addition, the *BISNIS Bulletin* actively promoted other U.S. Government and NGO programs and resources.

BISNIS Events: In FY 1999, BISNIS supported dozens of roundtables, NIS delegations, and other trade promotion events. For example, BISNIS hosted and briefed 27 NIS government and private-sector delegations. BISNIS also planned, and shared its expertise at, trade promotion events and roundtables in more than 25 U.S. cities; held the Seventh Annual BISNIS Open House in September 1999 (a free exhibition of resources for doing business in the NIS that attracted more than 400 members of the U.S. business community); and promoted and supported dozens of other trade promotion events in the United States and NIS.

BISNIS Training Programs: In FY 1999, BISNIS provided ongoing training to its NIS staff. Foreign-national staff working at U.S. embassies throughout the NIS often attended BISNIS training programs. In FY 1999, BISNIS also supported other U.S. Government-funded programs and agencies (such as the Regional Initiative) by training their personnel.

FY 1999 Quantitative Indicators: In FY 1999, BISNIS served more than 30,000 members of the U.S. and NIS business communities, including small to medium-sized enterprises and large companies, as well as U.S. and NIS government representatives and NGOs. Each month, BISNIS distributed NIS market information by mail to more than 30,000 members of the U.S. business community. On a daily basis, BISNIS directly reached as many as 8,500 U.S. business community representatives by e-mail via "push technology" e-mail distribution of market leads and reports. The *BISNIS Online* website, which contains some 5,800 documents, registered an average of 85,000 hits per week. In addition, BISNIS directly briefed more than 1,000 U.S. company representatives on NIS market opportunities and resources via trade events in U.S. cities. BISNIS also counseled thousands of U.S. companies by telephone, e-mail, and in person. Also in FY 1999, BISNIS introduced more than 400 NIS government and private-sector representatives to Commerce Department and other U.S. Government programs through small group briefings.

Preview of FY 2000 Programs: In FY 2000, BISNIS expects to launch a Russian-language website, initiate online registration for its *Search for Partners* program, complete the redesign of its English-language website, and revise and republish its booklet *Trade with America*.

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

Over the past six years, the Commerce Department's ABC Program has sought to promote the rapid expansion of U.S. trade and investment in the NIS, with an emphasis on assisting small and medium-sized U.S. firms. To date, the ABC network has served over 3,500 U.S. firms (an increase of 246 firms over FY 1998) and has supported over \$398 million in reported U.S. exports (an increase of \$15 million over FY 1998).

As of the beginning of FY 1999, seven ABCs were being operated by private-sector entities through cooperative agreements with the Department of Commerce. These "solo" ABCs were located in Russian cities considered to have commercial potential, but with minimal or no U.S. Commercial Service (USCS) presence: Chelyabinsk, Khabarovsk, Nizhniy Novgorod,

Samara, Volgograd, Yekaterinburg and Yuzhno-Sakhalinsk. An additional five ABCs were operated by and co-located with USCS offices in St. Petersburg and Vladivostok, Russia; Kiev, Ukraine; Almaty, Kazakhstan; and Tashkent, Uzbekistan.

The ABC Program was phased out over the course of FY 1999. As of September 30, 1999, all of the ABCs had been closed, with the exception of the ABC in Yuzhno-Sakhalinsk, Russia. The ABCs in Khabarovsk, Nizhniy Novgorod, and Samara closed on September 30, 1999, and ABCs in other Russian cities had been closed earlier in the fiscal year. Meanwhile, the ABCs in Kazakhstan, Ukraine and Uzbekistan were merged with the USCS offices in those countries.

The decision to phase out the ABC Program, and to shift many ABC functions to existing USCS offices, was based primarily on the following four reasons: (1) fewer new U.S. companies were entering NIS markets, in part because of the Russian financial crisis of August 1998; (2) U.S. businesses remaining in NIS markets had improved their capability to perform some of the tasks previously facilitated by the ABCs; (3) Russian companies offering similar business support services had emerged; and (4) USCS officers had a greater capability to meet the needs of U.S. firms doing business in, or seeking to enter, NIS markets.

During FY 1999, the ABC Program generated over \$676,000 and served 246 new clients. ABC Program staff in Washington and private-sector ABC operators spent a large part of the year closing individual ABCs. During the latter half of FY 1999, the ABC Program office worked closely with the Office of the Coordinator of U.S. Assistance to the NIS and the U.S. Embassy in Moscow to create a new management and service model for the ABC in Yuzhno-Sakhalinsk. There is a strong U.S. Government consensus that support services for U.S. companies are still necessary in Sakhalin, and that a U.S. Government-financed center to provide such services should be retained. The ABC itself will remain open at least through March 31, 2000, by which time a long-term plan for a U.S. Government commercial presence in Sakhalin will have been refined.

During the second quarter of FY 1999, plans were developed and implemented to close ABCs in Chelyabinsk, Volgograd and Yekaterinburg. The closing of the Yekaterinburg ABC was complicated by a series of difficulties with the local tax authorities, which began early in the year and did not end until after the ABC's official closing on April 30, 1999. During the fourth quarter of FY 1999, plans were developed and implemented to close ABCs in Khabarovsk, Nizhniy Novgorod and Samara. These ABCs were closed due to poor economic conditions and a limited or non-existent client base.

The ABCs were closed in accordance with procedures agreed upon in advance by the U.S. Embassy and Consulates in Russia, the Coordinator's Office and the Department of Commerce. Closing the Samara ABC was a particularly sensitive process, since it was an important component of the U.S. Government's Regional Initiative (RI) in Samara, and the U.S. Ambassador to Russia had officially opened the ABC earlier that same year. The Samara ABC was replaced by a restructured business center operated under the auspices of the RI. Two individuals staff the new business center: a business promotion representative, whose job is to find, evaluate and assist Samara firms that are ready to establish business relationships with U.S. companies; and a representative of the Commerce Department's Business Information Service for the New Independent States (BISNIS), who will facilitate business transactions by conveying essential information about business opportunities in Samara to U.S. companies.

USCS intends to continue to increase service to Russia's regions following the closure of the final ABC. The USCS office in Moscow, along with the Commerce Department's Office of International Operations in Washington, is working with the U.S. Embassy and Consulates in Russia on a new structure for delivering such assistance, including the delivery of commercial services to U.S. firms active in regions formerly served by ABCs.

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

Throughout FY 1999, the Commerce Department's CLDP Program provided technical assistance to the Governments of Russia, Ukraine and Moldova to support those countries' accession to the World Trade Organization (WTO) and improve the legal climate for doing business in those countries. WTO accession requires applicant countries to conform their laws and practices to international agreements and norms that are conducive to free enterprise and international commerce. As a result of the steps they are taking to adopt and implement these wide-ranging reforms, Russia, Ukraine and Moldova are making their economies both more transparent and more sound, providing new commercial opportunities to both domestic and foreign entrepreneurs. WTO accession is typically a multi-year process. Russia, Ukraine and Moldova are currently in the process of supplying information and negotiating the terms of their accession with the WTO Secretariat and the working groups handling the accession process for each country. CLDP provides technical assistance to support policy analysis,

preparation of reporting documentation and the development of the skills needed to implement reforms as they are adopted. Brief descriptions of CLDP's activities in each country are provided below:

Russia: In FY 1999, CLDP continued to facilitate Russia's WTO accession process by providing the Government of Russia with a resident trade expert. Specific technical assistance activities included programs to facilitate the Russian Government's enforcement and compliance with WTO agreements on intellectual property, introduce methods of coordination between the executive and legislative branches of the Russian Government and between the federal and regional governments, and assist the Russian Government's implementation of international standards in sanitary/phyto-sanitary measures and technical barriers to trade (SPS/TBT). CLDP's efforts have led to improved enforcement of intellectual property rights in Russia, the Russian Government's commitment to implement a public education program on the WTO, and the installation of a central database of standards, regulations, and other importing requirements for goods sold in Russia. CLDP-sponsored programs in intellectual property rights and SPS/TBT have reached more than 100 Russian Government officials in over a half dozen ministries.

Ukraine: In FY 1999, CLDP maintained a strong presence in Ukraine through the continued assistance of its resident trade expert. The resident advisor shared his expertise with his colleagues in the Ministry of Foreign Economic Relations and Trade (MinFERT) on a daily basis and worked with them to help raise awareness of the importance of WTO accession among senior and mid-level Ukrainian Government officials. In addition, CLDP worked to familiarize the Supreme Rada (parliament) with WTO concepts and obligations and helped Rada deputies understand the importance of passing WTO-compliant legislation. A cooperative effort between CLDP and the Institute on Legislative Problems produced reports on the actions the Rada must take to ensure that Ukraine's existing and future legislation is compliant with WTO obligations, as well as on the status of Ukraine's customs and intellectual property legislation.

Moldova: In FY 1999, CLDP continued its two-year-old efforts to help Moldova accede to the WTO by placing a resident trade expert in Moldova to work closely with the Ministry of Economy and Reforms. CLDP short-term assistance programs were instrumental in helping Moldova meet its WTO requirements in the areas of customs, standards, trade remedies, government procurement, intellectual property and agriculture. CLDP also conducted a WTO program for the Moldovan parliament, focusing on the benefits that would accrue to Moldova from WTO accession and the obligations that WTO membership brings with it. As Moldova nears the threshold of WTO accession, CLDP will be shifting the focus of its assistance activities to help Moldova implement its WTO obligations through the drafting, implementing and enforcing of WTO-consistent laws and regulations.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

The principal objectives of the SEC's technical assistance program for the NIS countries are to assist securities regulatory authorities and self-regulatory organizations in these countries with the development of transparent, well-regulated securities markets in which both domestic and foreign investors will have confidence. Many rule-of-law and other infrastructure issues, as well as macroeconomic conditions, are adversely affecting the realization of these objectives, but are beyond the control of the SEC and its NIS counterparts. Nevertheless, the SEC is substantially achieving these objectives in Russia, and to a somewhat lesser degree in Ukraine and the other NIS countries, by providing U.S. and overseas training for senior personnel of the NIS regulatory and self-regulatory organizations, and specific technical assistance with respect to laws and regulations, upon request. In FY 1999, the SEC provided training for 71 participants from eight NIS countries, bringing the cumulative totals of participants trained since the 1994 inception of the NIS program to more than 600 from all 12 NIS countries.

Training Programs

SEC International Institute on Enforcement and Market Oversight: The SEC offers this annual one-week program at its Washington headquarters for securities regulators from countries with developed markets or advanced but developing markets. The FY 1999 program was held in November 1998 and included four Russian securities-market officials.

International Organization of Securities Commissions (IOSC) Training Program: The SEC used FREEDOM Support Act (FSA) funds to send two delegates from Kazakhstan's National Commission on Securities and two delegates from Ukraine's Securities and Stock Market State Commission (SSMSC) to a training seminar on the regulation and supervision of market intermediaries that was held in Montreal in October 1998 and was sponsored by the IOSC and the Economic Development Institute of the World Bank.

International Institute for Securities Market Development: In April 1999, the SEC presented its 1999 International Institute for Securities Market Development at its Washington headquarters. The SEC used FSA funds to cover the costs of Russian translation and travel expenses for 13 delegates from seven NIS countries.

NIS/CEE Enforcement and Market Oversight Training Program: In May 1999, also at its Washington headquarters, the SEC offered its annual training program for NIS and Central and East European (CEE) securities-market officials on enforcement and market oversight. The SEC used FSA funds to help cover the costs of delivering the program, including Russian translation costs and travel expenses for 21 delegates from seven NIS countries.

NIS/CEE Training Program on the Review of Issuer Disclosure Documents: In June 1999, the SEC offered its annual training program at its Washington headquarters for NIS/CEE officials on reviewing issuer disclosure documents. The SEC used FSA funds to help cover the costs of delivering the program, including Russian translation costs and travel expenses for 10 delegates from five NIS countries.

SEC Programs with Russia: In response to a request from the Russian Federal Commission on the Securities Market (FCSM), the SEC provided information on the Chartered Financial Analyst (CFA) examination and alternatives for training Russian financial managers. An SEC official and two U.S. securities industry experts visited Moscow to make recommendations regarding record-keeping, reporting and oversight requirements for Russian broker-dealers. In addition, an assistant director of the SEC's Office of International Affairs and a U.S. private-sector volunteer participated in an assessment of the risk-management procedures of the Depository Clearing Company that was arranged by the Financial Services Volunteer Corps (FSVC). The SEC also presented a training seminar in Moscow for 20 participants on risk management in a centralized clearance and settlement environment and participated in a corporate governance seminar in Moscow for approximately 60 persons which was co-sponsored by Russia's National Association of Securities Market Participants (NAUFOR) and the FSVC.

SEC Programs with Ukraine: The SEC suggested alternatives to a draft Ukrainian company law, assisted USAID with a strategy paper containing recommendations for improvements to Ukrainian regulatory efforts, and worked on a broader concept paper on capital-markets development to be delivered to the Government of Ukraine.

U.S. DEPARTMENT OF THE TREASURY - TECHNICAL ASSISTANCE

The U.S. Department of the Treasury has operated a technical assistance program in selected NIS countries since 1992. Because the Treasury Department's expertise is in areas that are typically in the domain of finance ministries, the Department focuses on providing department-to-ministry assistance to help countries achieve specific short-term and medium-term goals related to macroeconomic stabilization and structural reform. The program's orientation toward policy reform, rather than institution-building alone, is a reflection of the Department's role within the U.S. Government. Treasury Department assistance is provided through resident advisors, based on the Department's experience that sustained interaction with foreign counterparts is the most effective means to advance a work program and organize the efforts of other specialists. This is particularly true in the policy development and implementation process. The Department seeks to place its advisors where they will have the greatest potential to effect systemic change, and where their work will facilitate the host country's conversion to a market-based economy. The Treasury Department's technical assistance is divided into five functional areas in which the Department has specialized expertise:

- **Budget and Macroeconomic Policy:** This includes budget formulation, analysis, examination and implementation, and macroeconomic forecasting, policy analysis and development.
- **Tax Policy and Administration:** This includes laws and regulations, revenue estimation and forecasting, auditing, compliance and taxpayer education.
- **Government Debt Issuance and Management:** This includes internal and external debt policy and management, and government securities issuance in both local and foreign currencies.
- **Financial Institution Policy and Regulation:** This includes financial institution reform, such as bank recapitalization, restructuring, privatization; regulation, governance and supervision.
- **Financial Crimes Law Enforcement:** This includes programs designed to assist host countries in combating financial institution fraud, money laundering, organized crime, securities fraud, and other corrupt practices.

Armenia

Budget Policy and Management: A resident budget advisor assisted in the implementation of a new budget law. Instructions and forms for the preparation and submission of budget requests for the year 2000 were completed and were an improvement over the previous year's procedures. A structured budget formulation system was created and plans were made to improve systems and practices for monitoring execution of the budget.

Government Debt Issuance and Management: A resident government debt advisor helped develop and implement standardized qualifications for primary dealers. He assisted the Central Bank in regulating, supervising and monitoring non-bank primary dealers, provided training to broker/dealers in establishing trading and sales operations, and helped create a "treasury direct" program, whereby the public is able to purchase treasury bills directly from the government.

Tax Policy and Administration: A resident tax administration advisor helped the State Tax Inspectorate (STI) reorganize its tax administration on a functional basis, develop and train inspectors in audit techniques, and establish three new departments for taxpayer education, audits and criminal investigations. He also drafted plans for helping the STI implement an annual audit plan and to develop audit selection criteria, as opposed to auditing the same businesses or taxpayers every year.

Enforcement Policy and Administration: A Treasury Department enforcement team has been providing assistance to the Interior Ministry's Department Six (a bureau responsible for enforcing violations of bank, insurance and currency fraud), the Office of the Prosecutor General (OPG), and the Central Bank since 1998. In FY 1999, the team helped the Department improve its enforcement capabilities, familiarizing it with the "enterprise theory" of investigation, the use of informants, undercover operations and electronic surveillance. Gaming-industry assistance was provided to Armenian law enforcement officials, the regulatory and licensing authorities of the Ministry of Finance, tax collectors (now the Ministry of State Revenues), and the OPG. The team also provided assistance to the Armenian Association of Insurers' Rights and conducted an assessment of the Armenian Government agencies responsible for creating an effective regulatory and enforcement system to combat insurance fraud.

Georgia

Budget Policy and Management: A resident budget advisor has helped redefine the government budgetary sphere, improve intergovernmental relations, implement a major reorganization of the staff of the Ministry of Finance (MOF), and create a basic analytical capacity in the MOF. Feedback from the MOF has been quite positive. The current advisor continues the work of the previous advisor, who coordinated reviews of the budget system and related laws, implemented changes in budget classification and budget development, and provided training to MOF staff, spending-agency and local government professionals, and elected and appointed government officials.

Government Debt Issuance and Management: A resident government debt advisor continued to help the MOF and the National Bank of Georgia develop the necessary legal and regulatory framework for a successful primary and secondary market in domestic government securities. Georgia began FY 1999 in the shadow of a badly deteriorated fiscal situation. The market-oriented issuance pattern previously under development was discarded, shriveling the market for government securities and throwing Georgia out of compliance with its International Monetary Fund (IMF) program. The issuance of treasury bills (T-bills) ceased in Georgia in September, and outstanding debt had fallen to zero by the end of 1998. The resident advisor focused his efforts on ensuring that when issuance restarted, it would conform to market practices and any future attempts to deviate from such practices would be thwarted. In particular, he promoted the formation of two committees—one on debt management within the Ministry and one on debt planning involving the Ministry and the National Bank—and now works closely with both committees. The long-delayed reintroduction of T-bills began in August 1999 at modest levels.

Tax Policy and Administration: In FY 1999, a resident tax advisor helped the Georgian Tax Inspectorate (GTI) work towards a modern tax system and improved administration of the country's tax code. The advisor also helped develop a comprehensive set of training materials on auditing techniques.

Kyrgyzstan

Government Debt Issuance and Management: A resident government debt issuance and management advisor has served in the Ministry of Finance since August 1996 and has helped Kyrgyzstan solidify its government securities market by devel-

oping more extensive domestic securities vehicles for financing government expenditures and increasing activity in the secondary market. The advisor implemented an electronic screen-based securities trading system, and provided advice on how to avoid ill-advised debt issuance resembling pyramid schemes. With the help of intermittent non-resident advisors, the resident advisor helped develop a public debt law and other relevant legislation. Since the effects of the Russian crisis hit Kyrgyzstan particularly hard, the Ministry of Finance placed an emphasis on external debt management and on debt tracking systems in FY 1999.

Moldova

Enforcement Policy and Administration: A Treasury Department enforcement initiative is promoting macro-economic reform by enhancing the capabilities of Moldovan officials to combat criminal activities that undermine privatization, develop financial systems and implement other economic reforms. After conducting an initial team assessment in February, the Treasury Department's Enforcement Division conducted six missions to Moldova. In June 1999, the team conducted a three-day workshop on combating money laundering and financial and economic crimes for representatives from the Ministries of Interior, National Security, and Finance, the National Bank, and the General Procurator's Office. In July, the team conducted a one-day seminar on combating credit card fraud for Moldovan officials responsible for investigating financial crimes. In September 1999, the first of two roundtable discussions on legal issues was held for Moldovan officials responsible for revising the country's criminal code. The September mission also worked on bank fraud issues with the Moldovan Bankers' Association. In October 1999, a follow-up seminar on combating credit card fraud was held for a wider audience of experts and Moldovan officials with responsibilities in this area. The team also contributed to proposed anti-money laundering legislation that received its first reading before the parliament in FY 1999. It also collaborated with an official from the National Police Academy on the production of a handbook on police rights and responsibilities.

Government Debt Issuance and Management: A resident debt advisor at the Ministry of Finance completed his assignment in April 1999, having contributed significantly to the development of the primary and secondary markets and the National Bank's ability to conduct open market operations. While much of the necessary infrastructure for sound primary and secondary markets is in place, external factors have weakened Moldova's domestic debt market and have caused foreign investors to withdraw. However, the National Bank of Moldova and the Ministry of Finance maintained the integrity of the country's domestic debt market in the face of considerable pressure during the regional financial crisis.

Russia

Tax Administration and Tax Policy: A team of tax administration advisors worked with the Ministry of Taxation to develop a strategic business plan, an implementation plan, and a work process analysis for restructuring and modernizing of Russia's tax administration system. In coordination with the IMF and the World Bank, Treasury Department advisors worked closely with Ministry counterparts to analyze and map out current tax administration processes from a representative sample of oblast (regional) and city tax administration offices. The advisors and their Russian counterparts are re-engineering the tax administration system to improve and streamline administrative processes, thus helping the Ministry's efforts to obtain a large World Bank loan to finance the information technology component of its modernization plan.

Financial Institutions: A resident advisor facilitated the adoption of legislation in support of banking reform, including a federal law on insolvency of credit organizations, which established the Agency for Restructuring Credit Organizations (ARCO). The advisor helped the Central Bank of Russia prevent attempts by the State Duma (lower house of parliament) to pass a seriously flawed and unfunded "blanket" government guaranty law related to banking-system restructuring. The advisor also helped ARCO establish operating policies and procedures, bank restructuring methodologies, and asset disposition activities, as well as a six-month pilot project to analyze and restructure selected banks throughout Russia.

Ukraine

Budget Policy and Management: A resident budget advisor developed a work plan to improve the analytical and institutional capacity of the Ministry of the Economy and provided advice on macro-economic policy issues. The work plan also focused on improving the structure and interaction between the Ministry and other Ukrainian Government and non-governmental institutions. The advisor also helped develop *The Economic Report of the President* and served on the Ukrainian Council of Economic Advisors. A second resident advisor provided comments and suggestions on the budget code, reviewing the functional classifications and providing a recommended set of functions, and reviewed last year's budget preparation guidance to assist in the development of the guidance for 2000, with an emphasis on program budgeting. The advisor prepared and submitted for discussion draft instructions and forms for the 2000 budget, as well as internal guidance for sectoral departments on a series of written and oral presentations for reaching decisions on the 2000 budget.

Financial Institutions: A resident advisor provided advice to a deputy prime minister on important banking issues throughout the year, including strategy options for dealing with troubled banks and alternative approaches to unpaid government-guaranteed and -directed loans. He also worked closely with the management of the state savings bank to improve policies and procedures for the collection of loans.

Government Debt Issuance and Management: A resident advisor worked closely with his counterpart—the chief advisor to the Governor of the National Bank of Ukraine (NBU) for macro-economic issues—and other high-level staff on a wide range of macro-economic issues, including the development of a basic macro-economic outline of the economy and a sophisticated monetary policy that fits Ukraine's economic conditions. He also promoted internal and external communication at the NBU, training its staff on open-market operations and creating a uniform economic and financial database within the NBU. A second resident advisor saw his previous recommendations instituted in FY 1999, resulting in improved transparency and market potential. The Ministry of Finance and NBU signed a fiscal agency agreement, but the Public Debt Law was stalled in parliament. The advisor's recent work focused on the rollover of maturing external debt in a crisis situation, including the issue of how to handle Ukraine's external debt crisis.

Tax Policy and Administration: In June 1999, the Ukrainian Government's draft tax code was delivered to the parliament. Assistance to the National Tax Training Center continued through June 1999, ending in with a course on auditing multi-national corporations. An expanded taxpayer service and education program was developed with input and guidance from the resident tax administration advisor, who completed his tour in August. A new resident tax administration advisor was placed in Kiev in September 1999 to focus on tax collection issues and training. A resident tax policy advisor helped develop a tax policy unit within the Ministry of Economy.

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

USDA's Emerging Markets Program (EMP) funds projects that increase U.S. agricultural exports to emerging markets around the world. The program is funded at \$10 million worldwide each year. In FY 1999, EMP provided approximately \$1.2 million for the following NIS-related activities:

Cochran Fellowship Program (\$400,000 - Russian Far East and Siberia, Ukraine, Kazakhstan): In FY 1999, EMP provided funding for 45 Cochran Fellowships for the Russian Far East (RFE), central Russia, Ukraine and Kazakhstan. The funding will be used in FY 2000 to provide training in the areas of integrated food distribution and food wholesale and retail marketing. The NIS component of the Cochran Fellowship Program is funded mainly through the FREEDOM Support Act. (Please see Training and Exchange Programs section below.)

Training in Statistical Gathering and Analysis (\$200,000 - Russia, \$100,000 - Kazakhstan): EMP is funding the continuation of the multi-year cooperation and training program between USDA's National Agricultural Statistics Service (NASS) and official statistical services in Russia and Kazakhstan. NASS is training its counterparts in statistical sampling methodology, which enables quick, inexpensive and accurate data collection. NASS will also provide training in computer technologies, data monitoring, compiling and publishing.

Impact Analysis of the U.S.-Russian Food Trade Crisis (\$177,558 - Russia): EMP funded the collection and analysis of economic and market information relevant to re-establishing U.S. agricultural trade with Russia in seven key geographic regions: Krasnodar, Vologda, Novosibirsk, Saratov, Lipetsk, Omsk and Vladivostok. The project's focus is on business practices and training needs in Russian agriculture, the viability of Russia's financial sector, trade finance and investment needs, and analysis of shortfalls of targeted commodities, such as beef, soy, pork, corn and wheat.

Feed Milling and Integrated Poultry Production Training (\$150,000 - Russia): EMP funded extensive training of Russian poultry producers and companies in modern techniques of feed formulation, breeding, production, processing, and marketing and management. Evaluation and follow-up will be conducted to determine the benefits derived from the training, implementation of technology transfer, and the utilization of U.S. soybean meal. The project will improve local capacity and generate increased demand for U.S. feeds, particularly soybeans and soybean meal, which were provided to Russia in 1999 under USDA's P.L. 480, Title I Program.

Long-Term Market Development for U.S. Rough/Brown Rice (\$142,000 - Russia): This EMP-funded project supports a partnership between the U.S. rice milling industry and rice mills in the Krasnodar Region to introduce U.S. rough/brown rice to the Russian market. Technical teams will insure the proper handling, processing and marketing of the rice, with hopes that U.S. rough/brown rice will prove an economical and profitable way to meet Russia's rice needs.

Validation of Crop Production Assessment (\$28,000 - Russia and Kazakhstan): This EMP-funded project continues a cooperative joint venture established in 1998 between the USDA's Agricultural Research Service (ARS), the National Aeronautics and Space Administration (NASA), and Altai State University in Russia to monitor crop conditions and yield-related parameters. This project will allow better forecasts of grain production in Russia and Kazakhstan in areas where accurate forecasting has been impossible due to constraints in satellite coverage.

USAID FARMER-TO-FARMER PROGRAM

The NIS component of USAID's Farmer-To-Farmer Program (NIS-FTF) began as a special three-year initiative in 1991. NIS-FTF provides short-term agricultural technical assistance through U.S. volunteers to facilitate the NIS countries' transition to a free-market economy. The Program has focused primarily on agribusiness development, agricultural credit, agricultural processing, marketing, development of associations and cooperatives, and agricultural/business training. Since its inception, NIS-FTF has organized more than 3,800 individual volunteer assignments in all 12 NIS countries. After almost eight years, the original NIS-FTF Program ended on September 30, 1999, and was being replaced by a new NIS-FTF Program as of October 1, 1999. The worldwide FTF Program is congressionally mandated and funded through the Farm Bill with P.L. 480 funds transferred to USAID for program implementation. In FY 1999, NIS-FTF operated under a one-year, \$7.29 million extension of four cooperative agreements that have been operational since 1991.

In FY 1999, a total of 442 FTF volunteer assignments were completed in 11 NIS countries. A breakdown by country is provided below:

	<u>FY 1999</u>	<u>1991-99 TOTAL</u>		<u>FY 1999</u>	<u>1991-99 TOTAL</u>
Russia	168	1,757	Belarus	16	131
Ukraine	69	561	Turkmenistan	21	115
Kazakhstan	40	435	Uzbekistan	23	119
Kyrgyzstan	39	220	Georgia	13	76
Moldova	13	157	Azerbaijan	20	66
Armenia	20	151	<u>Tajikistan</u>	<u>0</u>	<u>51</u>
			TOTAL	442	3,839

In FY 1999, the NIS-FTF Program expended \$7.29 million in funding, and FTF grantee organizations met the targets specified in their work-plans. NIS-FTF continued to evolve toward longer-term relationships with private agribusinesses and organizations by providing them with a series of volunteer assignments. In the past three years, NIS-FTF has provided assistance to more than 1,100 private agribusinesses and organizations. More than 35,000 people have received training directly from FTF volunteers. The estimated value of the FTF volunteers' professional time is about \$11.5 million. In addition, the FTF grantees, volunteers and cooperating organizations have leveraged additional resources and materials valued at approximately \$1.7 million to support their program activities.

FTF assistance is focused at the grassroots level, and has a large multiplier effect. For example, FTF volunteers helped a local entrepreneur start a new mushroom business in Turkmenistan. Prior to starting his own business, the individual had earned about \$160 during an 18-month period of working for another mushroom producer. In contrast, just six months after starting his own business, the entrepreneur had earned \$5,000 producing mushrooms and mushroom spawn. He recently expanded his business, starting a new variety of mushrooms and hiring three family members to work in the business. He is

helping establish eleven satellite growers this fall and after teaching them how to grow the mushrooms, he will purchase, package and market their mushrooms. After the new producers are well established, his long-term goal is to jointly form a mushroom association.

Access to agricultural credit is a major problem in the NIS. The NIS-FTF Program has developed several successful rural credit programs, including credit cooperatives, and has established linkages with a number of funding sources to capitalize these credit programs. For example, in Georgia, FTF volunteers are helping to establish a system of agricultural credit cooperatives. An independent foundation was established to administer the credit program initially. FTF volunteers provided assistance to the foundation and helped organize private farmers into credit cooperatives. In 1997, one credit cooperative made 16 loans with a 96-percent repayment rate. In 1998, three credit cooperatives made 56 loans totaling \$350,000. In 1999, USAID provided additional loan capital to expand the program to seven credit cooperatives.

In recent years, NIS-FTF has increasingly focused on results achieved by the host organization as a result of the volunteers' assistance. FTF grantee organizations have been much more selective in identifying host participants, and have looked for ways to ensure that results are sustained and replicated. For example, in Armenia, the FTF grantee organization used USAID funding to help establish and register Volunteers in Service to Armenian Agriculture (VISTAA), a local NGO that is utilizing the services of underemployed agricultural professionals. Initially, the VISTAA volunteers supported the FTF volunteers in their assignments, but as the VISTAA volunteers gained experience, they began to carry out separate volunteer assignments. In 1999, VISTAA volunteers carried out 40 technical assistance projects to complement the 20 FTF volunteer assignments. VISTAA now operates at more than 50-percent cost recovery from assignments funded by international agencies, and is expected to be self-supporting in about two years.

Plans for FY 2000

In FY 1999, USAID re-competed the NIS-FTF Program for the four-year period FY 2000-03. Several modifications were made in the new program design to increase impact and cost-effectiveness, including the following: (1) reducing the number of primary grantees by awarding one grant in each of the four NIS regions; (2) encouraging U.S. and local subgrant partnerships in order to bring increased capacity, new ideas and innovations into the program; (3) seeking innovative and cost-effective programs that integrate lessons learned; (4) increasing the program's focus on results; and (5) leveraging funds and in-kind resources to support program implementation. The FY 2000 funding level of approximately \$7.3 million will provide about 480 volunteer assignments. Regional summaries of planned FTF programs for FY 2000 are provided below:

Russia: The grant for the FTF Program in Russia was awarded to a consortium between Agricultural Cooperative Development International (ACDI) and Volunteers in Overseas Cooperative Assistance (VOCA). The consortium's U.S. subgrantees are Land O'Lakes and Winrock International. ACDI/VOCA plans to field 159 volunteers in FY 2000, and a total of 592 volunteers over the course of the four-year project. ACDI/VOCA's strategy is to focus FTF activities in the largest agricultural producing regions, targeting meat and dairy processing, post-harvest activities related to grain and vegetables, and farm credit and finance. Thirteen Russian oblasts (regions) have been targeted for FTF activities, including 10 oblasts participating in the USAID-funded PRARI initiative. FTF activities will be managed through field offices in Moscow, Saratov and Novosibirsk.

Caucasus: The grant for the FTF Program in the Caucasus region was also awarded to ACDI/VOCA and its subgrantees Land O'Lakes and Winrock International. ACDI/VOCA plans to field 89 volunteers in FY 2000 (33 in Armenia, 28 in Azerbaijan, and 28 in Georgia), and a total of 339 volunteers over the course of the four-year project. In Armenia, the program will continue to focus on small to medium-sized enterprise (SME) development, post-harvest handling, value-added processing, packaging and labeling, and marketing. In Azerbaijan, the program will focus on horticulture production, processing and marketing. In Georgia, the program will continue to support the development of farm credit systems, help create a sustainable institution providing loans and financial services to rural credit associations, and support the development of a seed industry. Working in close partnership with local NGOs in each country, ACDI/VOCA plans to have self-sustaining support organizations in place by the time the project is completed.

Western NIS: The Citizens' Network for Foreign Affairs (CNFA) was awarded the grant for the FTF Program in the Western NIS region, with Volunteers in Technical Assistance (VITA) as a subgrantee. CNFA plans to field 100 volunteers in FY 2000 (55 in Ukraine, 35 in Moldova and 10 in Belarus), and a total of 400 volunteers over the course of the four-year project. In Ukraine, the FTF Program will focus on helping private farmers organize democratic associations and cooperatives, supporting the development of small and medium-sized private agribusinesses, and improving access to credit for in-

puts and equipment. In Moldova, the program will focus on strengthening the National Farmers' Federation and other private farmers' organizations, creating private farm credit systems, and supporting the development of small and medium-sized private agribusinesses. In Belarus, the FTF Program will focus on strengthening the Belarusian Farmers' Union, supporting the development of private farms, and linking promising private farmers with Western agribusinesses. CNFA will continue its relationship with the American Farm Bureau Federation (AFBF) to mobilize skilled volunteers and foster lasting grassroots links between the U.S. and the Western NIS countries.

Central Asia: The Winrock International Consortium was awarded the grant for the FTF Program in the Central Asian region. The Consortium's U.S. subgrantees are ACDI/VOCA, Land O' Lakes and Mercy Corps. The Winrock Consortium plans to field about 135 volunteers in FY 2000 (35 in Kazakhstan, 32 in Kyrgyzstan, 21 in Tajikistan, 24 in Turkmenistan and 23 in Uzbekistan), and a total of 565 volunteers over the course of the four-year project. The number of FTF volunteers fielded to Tajikistan will depend on the security situation there. FTF activities will focus on increasing the sustainability of private agribusinesses through improved technologies and business management practices, increasing the capacity of farmers' associations and cooperatives, and strengthening the rural finance system to provide credit and other services to agricultural enterprises.

U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL AVIATION ADMINISTRATION (FAA)

Activities with Russia

U.S.-Russian Bilateral Aviation Safety Agreement: In FY 1999, the FAA concluded its efforts to determine the compatibility of the Russian aircraft certification system with FAA airworthiness requirements, and was therefore able to proceed with the signing of a U.S.-Russian Bilateral Aviation Safety Agreement (BASA). In addition to the BASA, the FAA and its Russian counterparts also concluded the first implementing procedure under the agreement, the Implementing Procedure for Airworthiness (IPA). This IPA allowed the FAA to issue FAA-type certificates to two Russian aircraft, the IL-103 and the IL-96T. At the present time, Russia has not requested further work toward certification of any further aircraft under the IPA.

Development and Operation of Air Traffic Routes: During FY 1999, FAA representatives participated in several bilateral and multilateral forums devoted to the development and efficient operation of air traffic routes over Russia. These forums included the Russian-American Coordinating Group for Air Traffic Control (RACGAT) and the International Civil Aviation Organization (ICAO) Informal Trans-Asia/Trans-Siberia/Cross-Polar Routes High-Level Steering Group. In addition, in support of the shorter, more fuel-efficient air traffic routes that have been developed over the Russian Far East, the FAA continued its efforts to install and operate reliable voice communications systems between air traffic control centers in Anchorage, Alaska, and the Russian Far East. All of these activities will continue into FY 2000.

U.S.-Russian Air Safety Working Group: In FY 1999, the FAA continued joint cooperation with Russia in the area of air safety through the U.S.-Russian Air Safety Working Group. One of the main focuses of this group has been to close out the recommendations that were made in the 1994 U.S.-Russian civil aviation system safety evaluation. The work of this group will continue into FY 2000 with additional meetings and seminars.

Airport Management Seminars: In conjunction with USAID and the USAID-supported American Russian Center of the University of Alaska, FAA representatives in Anchorage conducted an airport management seminar for officials from Russian airports.

Cooperative Research on the Use of Titanium in Aircraft Engines: In FY 1999, a cooperative agreement was completed, and work was begun on a program under which American and Russian experts will develop an international database on titanium use in turbine engines. This cooperative program will continue into FY 2000.

Other Programs: Other activities conducted by the FAA in FY 1999 included attendance in various seminars and meetings, translation of technical documents into Russian, and representational visits by the FAA Senior Representative for Russia and the NIS.

Activities with Other NIS Countries

In FY 1999, FAA cooperative activities with the other NIS countries included representational visits by the FAA Senior Representative for Russia and the NIS to several countries, the hosting of foreign delegations, and preparatory work for an air safety study to be conducted for the Government of Kazakhstan.

TRAINING AND EXCHANGE PROGRAMS

Since 1993, the U.S. Government has brought approximately 70,000 people from the NIS to the United States on academic and professional programs, in fields ranging from management to social service provision to NGO development. These programs have proven to be our most effective tool in reaching out to the next generation of NIS leaders to give them first-hand experience with the day-to-day functioning of a market-based, democratic system.

U.S. INFORMATION AGENCY (USIA)

In FY 1999, USIA brought over 7,000 NIS citizens to the United States on short- and long-term professional and academic exchange programs on a wide range of topics related to democratic and free-market reform. On September 30, 1999, USIA was integrated into the U.S. Department of State. In FY 2000, the USIA programs described below will be implemented by corresponding successor entities, including the State Department's Bureau of Educational and Cultural Affairs, the Office of International Information Programs, the Public Diplomacy Office for the NIS region, and Public Affairs Sections at U.S. Embassies in the NIS countries.

In FY 1999, USIA assistance programs in the NIS were funded through the FREEDOM Support Act (FSA), as well as through USIA's base appropriation. The funding source for each individual program is noted throughout the text, i.e., whether the program is FSA-funded, base-funded, or jointly funded with FSA and USIA base-budget funding.

USIA PROFESSIONAL TRAINING AND EXCHANGE PROGRAMS

FREEDOM SUPPORT ACT (FSA) GRANT PROGRAM (FSA-funded)

In FY 1999, USIA's Office of International Visitors organized group and individual FSA Grant exchange programs for a total of 747 NIS participants, including 19 from Armenia, 44 from Azerbaijan, 47 from Belarus, 42 from Georgia, 49 from Kazakhstan, 35 from Kyrgyzstan, 26 from Moldova, 327 from Russia, 21 from Tajikistan, 13 from Turkmenistan, 112 from Ukraine, and 12 from Uzbekistan. The FSA Grant Program, the FSA-funded counterpart of USIA's base-funded International Visitors (IV) Program, brings mid- to senior-level regional and local government officials and key professionals in selected fields to the United States to meet with their professional counterparts and examine issues related to democratic and economic reform. The FSA Grant Program is designed to be flexible and responsive to specific embassy requests for short-term exchange programs for influential public- and private-sector decision-makers. Participants develop working relationships with their U.S. counterparts, from whom they can gather information on an ongoing basis. The programs, which are typically two to three weeks in length, have included presidential staff members, parliamentarians, leading economists, regional leaders, NGO leaders and judges. Topics addressed in FY 1999 included international security, federalism, intergovernmental relations, taxation policy, local economic development and regional investment, small-business development, combating the trafficking of women and children, promoting the rule of law, human and civil rights, judicial reform, and journalism. Program highlights are provided below:

- **Judicial Reform Program (Azerbaijan):** Nine judges representing all three of Azerbaijan's high courts spent several weeks in the United States examining all aspects of the U.S. judicial branch. The judges established useful contacts at the Kent College School of Law in Chicago and the Judicial College in Reno, Nevada. Plans for future cooperation include extended visits by U.S. constitutional experts to Azerbaijani to assist Constitutional Court judges in their reform efforts, and a program on legislative drafting for parliamentarians involved in judicial reform.
- **Health-Care Reform Program (Russia):** An exchange program on pre-natal and post-natal care resulted in the establishment of a ground-breaking program in Chelyabinsk, Russia, for the production of bread fortified with iron and iodine. The effort is aimed at curtailing the high rate of anemia among expectant mothers and the resulting high rate of related birth defects.

- **State Duma Exchange Programs (Russia):** Under USIA's parliamentary exchanges, six members of the State Duma (Russia's lower house of parliament) representing the Committees on Security and Economic Affairs examined how U.S. law enforcement officials combat money laundering and financial crimes. State Duma deputies from the Committee for Legislative and Judicial Reform acquainted themselves with U.S. experience in the conducting of elections and prevention of voter fraud. The Chairman of the Committee for Media and Telecommunications and a senior member of his staff spent two weeks in the United States studying telecommunications issues with both public- and private-sector decision-makers. As a result of his experience in the United States, the Chairman is now working to facilitate the entry of U.S. technologies into the Russian market, drafting legislation that focuses on simplifying equipment certification procedures—a source of frequent complaints from U.S. companies trying to do business in Russia.
- **Political Process Program (Tajikistan):** Prior to Tajikistan's first post-civil-war elections, leading representatives of various Tajik political parties traveled to the United States to examine the organizational structure of U.S. political parties. The group met with politicians, political party organizers, NGO representatives, lobbyists and academic specialists. The group intends to publish information in Tajikistan on the insights they gained during their program.
- **Legal Reform Program (Ukraine):** In conjunction with efforts by the Ukrainian parliament and judicial branch to draft legislation on legal reform, USIA brought a group of influential judges, including four justices of Ukraine's Supreme Court, to the United States on a program focusing on criminal justice procedures. The chairman of the Ukrainian Supreme Court credited the program with clarifying many of the legal issues that were currently under consideration in Ukraine.
- **Regional Development Program (Ukraine):** A project for the Mayor of Kharkiv, Ukraine, and key municipal officials was carried out in support of the U.S. Government's Kharkiv Initiative, an initiative designed to advance economic reform and diversification of the Kharkiv Region. The group met with a wide range of U.S. private-sector entities, opening up opportunities for trade and economic cooperation between the United States and the Kharkiv Region.
- **Special Regional Leaders Program (Russia):** This program provides opportunities for regional officials to come to the United States on group programs to gain a better understanding of the day-to-day functioning of a democratic, free-market system and to get to know one another. In FY 1999, elected officials from the Urals region, Leningrad Oblast (Region), the Russian Far East, Northwest Russia, and Krasnoyarsk participated in these programs.

INTERNATIONAL VISITORS (IV) PROGRAM (Base-funded)

Like the FSA Grant Program, USIA's IV Program gives NIS participants an opportunity to familiarize themselves with American society, government and culture; study U.S. approaches to their professional fields, and establish professional contacts with their U.S. counterparts. IV program participants, who are nominated by U.S. embassies, come to the United States for approximately three weeks to meet with experts in their fields in Washington, D.C. and various cities around the country. Program topics in FY 1999 included economic development, defense- and foreign-policy making, rule of law, trade, state and local government, taxation and budgeting, social welfare, media relations, NGO management and Y2K-related issues.

In FY 1999, a total of 234 NIS citizens participated in individual and group IV programs: 11 from Armenia, three from Azerbaijan, 12 from Belarus, 16 from Georgia, 30 from Kazakhstan, seven from Kyrgyzstan, eight from Moldova, 112 from Russia, two from Turkmenistan, 25 from Ukraine, and 8 from Uzbekistan. Program highlights are provided below:

- **Press-Freedom Program (Georgia):** At a crucial point in the development of the Georgia's media laws, USIA organized a group IV program focusing on issues related to freedom of the press. Participants included eight district court judges, three journalists and the member of parliament responsible for drafting the country's freedom-of-information legislation.
- **Media and Politics Program (Kazakhstan):** A group of print and broadcast journalists from Kazakhstan traveled to the United States on an IV program to study U.S. media coverage of politics and elections. Through firsthand observation of the November 1998 elections and interaction with U.S. counterparts, they gained insights about the impact of the media on the political process in the United States.

- **Civic Education Programs (Russia):** A new civics program based on U.S. models was developed at the Omsk Institute of Social and Pedagogical Studies as a direct result of an IV program on civic education. In addition, Moscow State University began to use U.S. teaching materials at its Institute of Public Administration and Social Studies.
- **Women’s Leadership Program (Uzbekistan):** Six Uzbekistani women NGO leaders took part in an IV program targeting women’s rights and leadership issues. Their program looked at how services and support are carried out by a diverse array of U.S. NGOs, providing the participants with a wealth of ideas and contacts applicable to their own work in Uzbekistan.

CITIZEN EXCHANGES (Jointly funded)

USIA’s Office of Citizen Exchanges encourages the growth of democratic institutions in the NIS by supporting training and exchange and training programs conducted by U.S. organizations and universities. These programs create and expand partnerships between U.S. and NIS institutions, and enable NIS citizens to develop skills essential to carrying out their professional responsibilities. In FY 1999, a total of 371 NIS citizens and 168 U.S. citizens participated in USIA’s Citizen Exchange programs, whose thematic priorities included leadership training for women (in Russia, Ukraine, Moldova and Belarus); support for public awareness campaigns to prevent trafficking of women; educational management reform at the university level (in Russia); and business management training using distance learning (in Russia). A breakdown of participants by country and funding source is provided below:

COUNTRY	U.S. (FSA-funded)	U.S. (Base-funded)	TOTAL U.S. CITIZENS	NIS (FSA-funded)	NIS (Base-funded)	TOTAL NIS CITIZENS
Armenia	6	-	6	6	-	6
Azerbaijan	6	-	6	6	-	6
Belarus	3	4	7	38	-	38
Georgia	6	8	14	6	-	6
Kazakhstan	3	-	3	12	12	24
Kyrgyzstan	2	-	2	14	-	14
Moldova	2	-	2	-	-	-
Russia	77	29	106	157	58	215
Ukraine	22	-	22	62	-	62
TOTAL	127	41	168	301	70	371

In addition, the Office of Citizen Exchanges continued to support the Municipal and Community Problem-Solving Program implemented by Sister Cities International (SCI). Under the direction of SCI, 14 pairs of cities from Russia, Ukraine, Kazakhstan and the U.S. continued and expanded joint programs to provide education on women's issues, develop programs for the disabled, and promote economic development. Paired cities included the formerly closed nuclear-weapons-producing cities of Sarov (Arzamas), Zheleznogorsk, and Snezhinsk.

Programs activities supported by the Office of Citizen Exchanges in FY 1999 included internships, study tours, short-term training, consultations, and extended, intensive workshops promoting two-way exchanges. Many of the programs were designed to accommodate non-English speakers and take into account the need for ongoing information-sharing, training and plans for self-sustainability. Programs typically offer support for the establishment of training centers, professional networks, Internet communication, and train-the-trainer programs. Program highlights are provided below:

- **Anti-Trafficking Program – Russia:** The MiraMed Institute of Seattle launched an ambitious USIA-funded program to help prevent the trafficking of women and children in Russia. The U.S. and Russian partners established the Angel Coalition, an international NGO dedicated to educating Russian women about the tricks traffickers use to lure women into slavery, and lobbying the Russian Government to enact tougher laws against this crime. The NGO’s lobbying committee met with a State Duma deputy and the NGO was subsequently assigned to work as a special advisory committee to the State Duma on trafficking.
- **Women’s Leadership Program – Russia:** Project Harmony's USIA-funded women's leadership training program has formed a regional network of women's organizations in Siberia. In FY 1999, the network began producing and airing radio broadcasts designed to widen its membership, broaden the scope of their public information programs, support children's initiatives, announce seminars on fund-raising and micro-credit opportunities, and recruit sponsors for a bi-

annual conference held this past summer. The network also sought to include Mongolia in its activities, and was in the process of negotiating with Siberian schools and universities to deliver women's leadership seminars to their students.

- **Disabled Children's Program – Ukraine:** The Corvallis, Oregon, and Uzhgorod, Ukraine, Sister Cities Organization implemented a USIA-funded program for physically disabled children in Uzhgorod. The team trained two Ukrainian therapists in the use of therapy balls and splint fabrication, and provided them with the necessary materials and supplies. Additional training in early intervention for children with disabilities was also provided, with such training now in use at hospitals in Uzhgorod. The team also produced an instructional video in Russian on early intervention and rehabilitation of children with physical disabilities, with an accompanying handbook. Corvallis sent a shipment of wheelchairs to increase the mobility of home-bound children in Uzhgorod. The group also raised money to buy a van to transport children to wheelchair sports and other events. The program promoted community awareness of disability issues by bringing disabled people into the public view in Uzhgorod, as well as organizing events such as a "Volunteer Day" highlighting community-service efforts.

In FY 2000, the Office of Citizen Exchanges will continue to support practical training programs for women, with a new emphasis on developing regional programs in the Caucasus and Central Asia. Two new programs will be implemented in Ukraine: a program on business management training using distance learning technology, and a program on public library reform. Content-based Internet training will be developed in the Western NIS and the Caucasus. The Office will also support the creation of professional and business associations, which contribute to economic growth and community development.

COMMUNITY CONNECTIONS (FSA-funded)

USIA's Community Connections Program offers USIA community-based, three- to five-week practical training opportunities with home-stays in the United States for entrepreneurs, local government officials, legal professionals, NGO leaders and other professionals from Russia, Ukraine, Belarus, Georgia, Moldova, Armenia and Kazakhstan. Local U.S. community host organizations arrange internships for participants based on the latter's interests and experience. U.S. companies offering internships range from small, family-run enterprises to major, multi-national Fortune 500 corporations. The objectives of the Community Connections Program are to provide participants with professional training and exposure to the day-to-day functioning of a democratic, free market system, encourage public-private partnerships in the NIS by including private-sector and government participants in the same programs, and create links between U.S. and NIS regions and communities.

Under the Community Connections Program, English-speaking NIS entrepreneurs are offered individual internships in analogous U.S. businesses, including seminars, consultations and site visits. Programs for professionals who do not speak English are less individualized and more group-focused. All Community Connections programs are implemented with the assistance of U.S.-based locally hired interpreters. Recruitment is carried out in the participating NIS countries by U.S. organizations with resident representatives in those countries, and takes the form of an open, merit-based competition. Candidates must successfully complete a three-stage selection process that includes a review of applications by a committee of experts in the given field, and an in-person interview conducted by members of the relevant professional community. Finalists are then placed with U.S. community-based organizations, which arrange hands-on internships for them with volunteer host companies or organizations and provide housing with volunteer American families.

In FY 1999, the Community Connections Program arranged internships for an estimated 1,760 NIS participants: 60 from Armenia, 100 from Belarus, 100 from Georgia, 80 from Kazakhstan, 140 from Moldova, 880 from Russia, and 500 from Ukraine. Program highlights are provided below:

- The editor of a local newspaper in Obninsk, Russia, spent five weeks in Seattle on a program designed by the Foundation for Russian-American Economic Cooperation, which included a business training course and an internship at The Sun newspaper. Since returning home, the editor has applied what he learned about U.S. marketing strategies to his own newspaper, Vecherniy Obninsk, which as a result has doubled its circulation and expanded from four to five issues per week.
- An employee of a marketing company in Kharkiv, Ukraine, traveled to Kansas City in March 1999 on a Community Connections program focusing on market research and hotel and commercial development. Upon return to Ukraine, he began using focus-group sampling to help his clients devise new advertising and product distribution campaigns in Kharkiv.

In FY 2000, approximately 1,890 Community Connections participants will be recruited from Russia, Belarus, Georgia, Kazakhstan, Armenia and Moldova. In April 2000, the State Department's Bureau of Educational and Cultural Affairs will hold an international Community Connections conference in Tucson, Arizona, which will involve representatives from all of the participating U.S. host communities, recruitment organizations, and U.S. embassies. The purpose of the conference will be to develop strategies for enhancing local programming and evaluate all facets of the program.

Presidential Management Training Initiative (PMTI): FY 1999 marked USIA's second year of support for Russia's Presidential Management Training Initiative (PMTI), which was initiated by President Yeltsin to train Russian mid-level managers. USIA supported PMTI by expanding the Russian business internship portion of the Community Connections Program to include five-to-six week internships for up to 100 PMTI participants between September 1999 and June 2000.

PRODUCTIVITY ENHANCEMENT PROGRAM (FSA-funded)

Since 1996, the San Francisco-based Center for Citizen Initiatives (CCI) has been implementing the USIA-funded Productivity Enhancement Program (PEP), which provides month-long management training internships for non-English-speaking Russian entrepreneurs, managers, private farmers, bankers and accountants. CCI maintains offices in six Russian cities—Dubna, Voronezh, Volgograd, St. Petersburg, Yekaterinburg and Rostov—and works very closely with U.S. Rotary Clubs to facilitate and coordinate PEP programs in communities across the United States. In FY 1999, 625 participants were funded for travel to the United States under the PEP Program.

USIA ACADEMIC TRAINING AND EXCHANGE PROGRAMS

SECONDARY SCHOOL EXCHANGE AND PARTNERSHIP PROGRAMS

USIA's NIS Secondary School Initiative supports exchanges of high school students and educators between the United States and the NIS through the Future Leaders Exchange (FLEX) Program, School Partnership Program, and Teaching Excellence Awards (TEA). The long-term objectives of these programs are as follows: (1) to foster interaction between U.S. and NIS secondary school students to promote mutual understanding; (2) to integrate NIS citizens into the world community by helping them build open societies and promote democratic values and institutions in their home countries; (3) to build sustainable partnerships between U.S. and NIS school systems and private organizations; and (4) to promote NIS educational reform and citizen empowerment.

FUTURE LEADERS EXCHANGE (FLEX) PROGRAM (Jointly funded)

Under USIA's highly popular FLEX Program, also known as the Bradley Program, students from all 12 NIS countries live with U.S. host families and attend U.S. high schools for one academic year. FLEX participants are placed in all 50 states and take part in local civic education programs. In FY 1999, the number of FLEX applications increased by 12 percent to a record 42,596 for the 930 slots in the 1999-2000 program cycle. Also in FY 1999, a group of 100 FLEX participants in the 1998-99 program cycle were selected, on the basis of an essay contest, to take part in a week-long civic education workshop in Washington, D.C., in April, which was organized by the Close-Up Foundation. While in Washington, the FLEX participants met individually with 60 members of the U.S. Congress from their U.S. host states, as well as with many congressional staffers. A breakdown of participants in the FY 1999-2000 program cycle is provided below:

COUNTRY	FSA-funded	Base-funded	TOTAL
Armenia	37	13	50
Azerbaijan	42	13	55
Belarus	47	13	60
Georgia	40	10	50
Kazakhstan	52	13	65
Kyrgyzstan	28	7	35
Moldova	28	7	35
Russia	190	115	305
Tajikistan	15		15
Turkmenistan	23	7	30
Ukraine	180		180
Uzbekistan	40	10	50

TOTAL	722	208	930
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In FY 1999, the FLEX Program continued to recruit students with physical disabilities. At a workshop in May, disabled participants in the 1998-99 FLEX Program rated their U.S. experience as very positive, and returned home committed to working for equality and empowerment of the disabled.

Surveys of 1993-94 program alumni in Azerbaijan, Kazakhstan and Russia showed that a significant number of alumni were completing undergraduate studies in such fields as law, journalism and international business, and others already had jobs in those fields. With support from the Soros Foundation, FLEX alumni organized a conference on community service in Central Asia, which was held in summer 1999 in Almaty, Kazakhstan. FLEX alumni from Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan took part in the conference's workshops on team-building, establishing volunteer organizations, functional approaches to community service, conflict resolution, and the relationship between citizens and the state. Conference participants also took part in a community service project at a children's hospital and helped clean up a nature preserve.

The FLEX Program generated an estimated \$9 million in cost-sharing and in-kind contributions in FY 1999, mostly by host families and schools. FLEX students performed more than 18,000 hours of community service during the 1998-99 school year.

SECONDARY-SCHOOL PARTNERSHIPS (FSA-funded)

USIA's secondary-school partnership programs support the establishment and expansion of linkages between U.S. and NIS secondary schools through substantive collaborative projects and student and educator exchanges. These exchange programs range from three- to four-week group visits to individual exchanges of up to one academic year. The collaborative projects have a thematic focus and tangible outcomes, such as the production of new educational materials. In FY 1999, secondary school partnership projects focused on health education, democracy and globalization, leadership development, community service, civic education, computer technology, career planning, agricultural education, and business development. In FY 1999, USIA awarded a total of 15 partnership grants under its two secondary school partnership programs. USIA's Secondary School Partnership Program (SSPP) is competed openly, while the Secondary School Excellence Program (SSEP) promotes new and continuing linkages with the home institutions of USIA Teaching Excellence Awards national winners and their U.S. counterparts. (Please see Teaching Excellence Awards section below.) In FY 1999, a total of 647 NIS and 672 U.S. students and teachers took part in exchanges under USIA's secondary-school partnership programs. A breakdown of participants by country is provided below:

COUNTRY	NIS Participants	U.S. Participants	TOTAL
Armenia	15	15	30
Azerbaijan	22	22	44
Belarus	44	64	108
Georgia	22	22	44
Kazakhstan	33	33	66
Moldova	7	14	21
Russia	355	347	702
Ukraine	149	155	304
TOTAL	647	672	1,319

Site visits conducted in September 1999 confirmed that participating NIS secondary schools are making strong progress in the following areas: (1) curriculum changes, adding new courses such as business English and applied computer skills; (2) institutional reforms, such as introducing student choice in course selection; (3) teaching methodology, including the use of video and film in the classroom and greater opportunities for group discussion among students and teachers; and (4) school organizations, including the introduction of student clubs, student government, and parent-teacher councils. For example, over the past several years, the First City Gymnasium in Cherkasy, Ukraine, has participated in several school partnership activities with its sister-city schools in Santa Rosa, California. As a result, the Ukrainian partners have introduced new subjects into their curriculum, such as American studies and American literature, as well as the English-language elective classes in applied economics, business English, and typing. The Ukrainian school also created a student government headed by an elected president, which defends the rights of students and ensures that they fulfill their responsibilities.

TEACHING EXCELLENCE AWARDS (FSA-funded)

USIA's Teaching Excellence Awards (TEA) Program recognizes talented secondary-school teachers in the fields of English language and American studies in five NIS countries: Kazakhstan, Kyrgyzstan, Russia, Ukraine and Uzbekistan. Nominations are elicited in all oblasts (regions) of the participating countries, and nominees are screened by local committees. Regional winners receive educational equipment and materials for their schools. This past summer, the top 70 national TEA winners participated in a seven-week enrichment program in the United States, alongside 27 outstanding U.S. teachers selected in independent competitions. The 27 U.S. winners also traveled to the NIS on a professional development program in fall 1999. In addition to contributing to the development and reform of educational systems in the participating countries and promoting mutual understanding, the TEA Program generates a great deal of publicity for U.S. Government assistance to the NIS and provides support to an important, but under-recognized profession.

In FY 1999, a total of 970 teachers were recognized in the first round of competition, of whom 431 received regional awards in the second round, of whom 70 became national finalists, winning a trip to the United States in July-August 1999. A breakdown of participants by country is provided below:

COUNTRY	First-Round Winners	Regional Semi-Finalists	National Finalists	U.S. Awardees
Kazakhstan	112	52	10	3
Kyrgyzstan	51	27	5	2
Russia	495	220	30	12
Ukraine	191	80	15	7
Uzbekistan	121	52	10	3
TOTAL	970	431	70	27

In FY 1999, NIS and U.S. TEA Program alumni were engaged in a wide range of activities building upon and sharing their TEA experiences, creating Internet websites focusing on educational issues and TEA experiences; implementing student e-mail/pen pal projects, joint thematic projects and reciprocal visits; and publishing articles, giving multimedia presentations and holding seminars for teachers and students in order to share what they had learned during their TEA program. In addition, TEA alumni worked to promote institutional and methodological change by establishing summer schools, resource centers, clubs and societies, and organizing seminars in their schools and districts. For example, one Ukrainian participant in the 1997 TEA Program is now experimenting with cooperative learning methods and, through demonstration classes, is inspiring large numbers of his English-teaching colleagues to do the same. In addition to establishing a pen pal program with the class of the U.S. teacher whom he hosted in Ukraine, the TEA alumnus also made four video documentaries about Washington, D.C., and about the U.S. teacher's visit to Ukraine, which were shown on Ukrainian local television, and published articles in several Ukrainian newspapers and magazines.

FREEDOM SUPPORT ACT (FSA) UNDERGRADUATE EXCHANGE PROGRAM (FSA-funded)

USIA's FSA Undergraduate Program provides grants to NIS citizens for one year of non-degree undergraduate study in the United States in a number of areas, including agricultural and environmental management, American studies, business, computer science, economics, education methodology, journalism/mass communications, political science, and sociology. First-year students apply for scholarships to community colleges, while more advanced students compete for scholarships at four-year college and university programs. Academic studies are enhanced through community service activities, a practical internship, and an end-of-year workshop. Participants indicated that the community service activities were among the most eye-opening components of the program, giving them first-hand experience with the American approach to helping those in need. Recruitment for the 1999-2000 cycle of the FSA Undergraduate Program yielded over 6,400 applications from students all over the NIS—an increase of some 2,000 applications over FY 1998. In FY 1999, the program funded 261 participants: 25 from Armenia, 19 from Azerbaijan, 11 from Belarus, 21 from Georgia, 19 from Kazakhstan, 12 from Kyrgyzstan, nine from Moldova, 64 from Russia, four from Tajikistan, four from Turkmenistan, 63 from Ukraine and 10 from Uzbekistan.

U.S.-RUSSIAN YOUNG LEADERSHIP FELLOWS FOR PUBLIC SERVICE (FSA-funded)

The U.S.-Russian Young Leaders Program, which targets young people who show the promise of contributing to the betterment of their countries, is an educational exchange program that emphasizes the concepts of public service and social responsibility and seeks to increase mutual understanding between Russia and the United States. The program provides

training for young Americans and Russians in fields relevant to civil-society development, combining academic coursework with community service activities. Participants undertake one year of non-degree undergraduate and/or graduate-level academic study at a U.S. college or university, followed by a four- to twelve-week professional development internship. The first group of Russian participants under this new program arrived in the United States in August 1999. A total of 15 Americans went to Russia and 54 Russians came to the United States under this program in FY 1999.

**EDMUND S. MUSKIE / FREEDOM SUPPORT ACT (FSA) GRADUATE FELLOWSHIP PROGRAM
(Jointly funded)**

The Muskie/FSA Graduate Fellowship Program provides highly qualified NIS graduate students and professionals with opportunities for one to two years of study in U.S. master’s-degree programs in the fields of business administration, economics, education administration, environmental management, law and legal education, library and information science, mass communications/journalism, public administration, public health and public policy. Candidates are recruited through an open, merit-based competition administered by the American Councils for International Education (ACIE, formerly ACTR/ACCELS) and the Open Society Institute. U.S. host campuses are also selected through a competition and generally provide tuition waivers of fifty to sixty percent. There are typically at least three times more applicants than available Muskie/FSA fellowships in most NIS countries. The accomplishments of Muskie/FSA program alumni are often front-page news in their home countries, and they actively participate in USIA-supported alumni activities. In FY 1999, a total of 299 participants traveled to the United States on Muskie/FSA Graduate Fellowships. A breakdown by country and funding source, as well as program highlights, are provided below:

COUNTRY	FSA-funded	Base-funded	TOTAL
Armenia	58	-	58
Azerbaijan	13	-	13
Belarus	7	3	10
Georgia	22	-	22
Kazakhstan	18	3	21
Kyrgyzstan	11	2	13
Moldova	7	1	8
Russia	39	35	74
Tajikistan	4	-	4
Turkmenistan	7	-	7
Ukraine	52	-	52
Uzbekistan	15	2	17
TOTAL	253	46	299

- A Muskie Fellow from Georgia studied health policy and management, managed care, and cross-national health systems at Columbia University’s School of International and Public Affairs (SIPA). Upon returning to Georgia, he assumed a senior-level position at Georgia’s Ministry of Health, where he is now developing strategies for health-care reform, financing alternatives, and pilot testing of reimbursement mechanisms for health-care providers. He also coordinates foreign technical assistance provided to the Ministry and the Georgian health-care system, and serves as the Minister’s official representative in negotiations with foreign governments and NGOs.
- A Muskie Fellow from Belarus’s Institute for Research on Women studied at Rutgers University. Upon returning to Belarus, she established a Center for Gender Studies at the Envila College for Women, which is located in Minsk, and finished a textbook, *Western Europe and the USA, 1915-1918*. She is actively engaged in conferences and other activities with fellow alumni of USIA programs, as well as in the process of academic reform throughout Central and Eastern Europe.

CONTEMPORARY ISSUES FELLOWSHIP PROGRAM (FSA-funded)

USIA’s Contemporary Issues Fellowship Program, which is administered by the International Research and Exchanges Board (IREX), targets NIS government officials, NGO leaders and private-sector professionals who are engaged in the political, economic, social or educational transformation of their countries. Through an open, merit-based competition, the program provides participants with an opportunity to conduct research and participate in professional conferences and public forums on a range of topics, including sustainable growth and economic development; democratization, human rights and

the rule of law; political, military, security and public-policy issues; strengthening civil society; Internet; the communications revolution; and intellectual property rights. Fellows are placed in four-month-long programs at U.S. universities, think tanks, NGOs, and U.S. Government offices and are matched with a U.S. host advisor, who guides their research and professional development, with an emphasis on writing and advocacy skills. Some 870 qualified applications were received for the 93 fellowships awarded in FY 1999. Of the 93 finalists, five were from Armenia, three from Azerbaijan, six from Belarus, six from Georgia, nine from Kazakhstan, three from Kyrgyzstan, eight from Moldova, 21 from Russia, one from Tajikistan, two from Turkmenistan, 21 from Ukraine and eight from Uzbekistan. FY 1999 program highlights included a participant from Armenia who conducted research at the University of Maryland on NGOs and the health-care sector and was subsequently appointed Armenia's Minister of Health. During his fellowship, he established a tele-medicine (Internet-based health-care) partnership between the University of Maryland and the Armenian Diagnostics Medical Center, of which he had been the director.

J. WILLIAM FULBRIGHT PROGRAM (Base-funded)

The NIS component of USIA's Fulbright Program, which is administered through offices in Moscow and Kiev, provides opportunities for American faculty to teach in the NIS countries and research awards for NIS scholars to study in the United States. Although the program emphasizes the humanities and social sciences, scholarships are also awarded in biology, chemistry, mathematics, medicine, and related fields. In addition to funding 67 U.S. and 98 NIS scholars in FY 1999, the program also provided textbooks for use by American grantees at their NIS host institutions. The Fulbright Program familiarizes NIS scholars with the diversity and perspectives of the American liberal arts curriculum and provides them with a global network of personal and professional contacts. A breakdown of participants by country is provided below:

COUNTRY	U.S. SCHOLARS	NIS SCHOLARS	TOTAL
Armenia	4	4	8
Azerbaijan	1	4	5
Belarus	2	5	7
Georgia	3	4	7
Kazakhstan	4	8	12
Kyrgyzstan	5	4	9
Moldova	2	4	6
Russia	30	42	72
Ukraine	13	18	31
Uzbekistan	3	5	8
TOTAL	67	98	165

In FY 1999, U.S. Fulbright lecturers were placed at more than 20 NIS academic institutions that had never before hosted an American Fulbright lecturer. A Fulbright Program for U.S. graduate students was inaugurated during the 1999-2000 academic year, sending a total of eight participants to Moscow and St. Petersburg. The Fulbright Program also helped organize the first-ever conference for American studies specialists from the Central Asian countries, which was held in Kazakhstan in spring 1999. Also in FY 1999, scholarships dedicated to minority studies were incorporated into the Fulbright programs for Belarus and Ukraine. These awards provide opportunities for American and NIS scholars to study the role of ethnic and religious minorities in the past, present and future development of the U.S. and their home countries. Pending the availability of funding, other NIS countries may also receive minority studies scholarships during future program cycles.

The Fulbright Program brings U.S. lecturers in a wide range of academic disciplines to the NIS countries. In FY 1999, in addition to the more traditional fields of American studies, economics, and business management, U.S. Fulbright lecturers taught courses in environmental sciences (in Armenia and Kyrgyzstan), academic governance and restructuring (in Georgia), social work (in Kyrgyzstan), nursing education and curriculum development (in the Russian Far East), gender analysis and women's issues in societal restructuring (in Russia), and problems of agribusiness in making the transition to a market economy (in Russia). U.S. Fulbright lecturers also taught a number of courses in law and criminology, including law and enforcement in problems of corruption and comparative environmental law (in Russia) and comparative constitutional law (in Ukraine). A U.S. Fulbright lecturer in Grodno, Belarus, who taught American culture and film and video production, also opened an Internet café so that students, faculty and citizens could have access to the Internet.

REGIONAL SCHOLAR EXCHANGE PROGRAM (Base-funded)

The Regional Scholar Exchange Program (RSEP) is an open, merit-based competition that selects NIS and U.S. junior and mid-level university faculty, researchers, and scholars in the social sciences and humanities for four- to six-month fellowships at U.S. and NIS institutions, respectively. NIS Regional Scholars are placed at U.S. universities, while U.S. Regional Scholars are placed at universities and research institutes in the NIS. Regional Scholars are matched with host advisors who guide their research and professional development. RSEP fellows conduct research on specific topics in the social sciences and humanities, write academic papers, articles and books, and deliver lectures, with the goal of contributing to the further development of higher education and scholarship in their home countries. For example, a Regional Scholar from Russia used U.S. Library of Congress resources to compile an 800-title bibliography on Russia's indigenous and minority peoples. RSEP awarded 87 fellowships to NIS scholars and eight fellowships to U.S. scholars in FY 1999. The breakdown of the NIS scholars by country is as follows: 28 from Russia, 17 from Ukraine, six from Kazakhstan, and four each from Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan.

RSEP is administered for USIA by the American Councils for International Education (ACIE, formerly ACTR/ACCELS) and the Kennan Institute for Advanced Russian Studies. As part of the Regional Scholar Exchange Program, the Kennan Institute also launched the Galina Starovoitova Fellowship Program, which will be available to prominent Russian scholars or policy makers who successfully bridge the world of ideas and public affairs to advance human rights and conflict resolution in Russia.

JUNIOR FACULTY DEVELOPMENT PROGRAM (Jointly funded)

USIA's Junior Faculty Development Program (JFDP) grants U.S.-based, one-year fellowships to junior-level university faculty from Azerbaijan, Kazakhstan, Russia and Ukraine to help them develop curricula, acquire new teaching skills and enhance their expertise. The JFDP also familiarizes American students and faculty with NIS educators, as JFDP Fellows are often invited to teach courses or give lectures at their U.S. host universities. In this way, the JFDP promotes university linkages between the United States and the participating countries. JFDP Fellows work in such fields as American studies, architecture and urban planning, arts management, business administration, cultural anthropology, economics, education administration, environmental studies, history, journalism, law, library science, literature, philosophy, political science, psychology, public policy, public administration and sociology. JFDP Fellows participate in a two-month practical internship at the end of their academic programs and have the opportunity to participate in professional conferences throughout the year. The U.S. component of the JFDP, as well as the recruitment and selection of JFDP candidates in Azerbaijan and Kazakhstan, is administered for USIA by the American Councils for International Education (ACIE, formerly ACTR/ACCELS). In Russia and Ukraine, the recruitment and selection of JFDP participants is conducted by the Fulbright Office. In FY 1999, the JFDP funded a total of 92 fellowships. A breakdown by country is provided below:

COUNTRY	FSA-funded	Base-funded	TOTAL
Azerbaijan	7	-	7
Kazakhstan	10	-	10
Russia	5	50	55
Ukraine	11	9	20
TOTAL	33	59	92

In its five-year history, the JFDP has produced a large number of active and highly motivated alumni in Russia and Ukraine. (The first JFDP Fellows from Kazakhstan returned home this past summer, and the first participants from Azerbaijan will complete their programs in summer 2000). JFDP alumni have shown great enthusiasm for educational reform and are often in positions to effect change in their home universities. Upon returning home, JFDP Fellows share their U.S. experiences and training with colleagues in many regions of the NIS.

- A JFDP Fellow from Perm State University in Russia established a broad range of long-term professional ties during her fellowship at Department of Mass Communications of the University of Kansas, setting up a formal distance learning program between the two institutions. While in Kansas, she also networked extensively, attended two professional conferences and joined the National Communication Association. During her second semester, she taught a graduate course in Russian-American Communication, which garnered high marks in student evaluations. At the conclusion of her academic program, the JFDP Fellow completed an internship at the National Journalism Center in Washington, D.C.

- A JFDP Fellow in the field of teaching English as a second language (ESL) worked with a mentor at the George Washington University to develop courses on the use of computer technology in the teaching of ESL, and plans on sharing her new curricula with her colleagues at her home university.

NIS COLLEGE AND UNIVERSITY PARTNERSHIP PROGRAM (FSA-funded)

USIA's NIS College and University Partnership Program (NISCUPP) is designed to support mutually beneficial linkages between U.S. and NIS colleges and universities in the following areas: law, business, economics, trade, education, continuing education, educational reform, civic education, public administration, public policy, government, urban and regional economic development, journalism and communications. By promoting curriculum reform and applied research, NISCUPP helps NIS academic institutions contribute to the creation of democratic institutions, the rule of law, and an environment hospitable to foreign investment in their countries. NISCUPP provides grants of up to \$300,000 for U.S. and NIS institutions to exchange faculty and staff for the purpose of teaching, lecturing, faculty and curriculum development, collaborative research and outreach. Cost-sharing by the U.S. partner institutions and other sources covers approximately 45 percent of all program costs. In FY 1999, several NISCUPP specialized projects focused support on selected NIS institutions, including the American University in Kyrgyzstan, the American University of Armenia, and the Siberian-American School of Management at Irkutsk State University. In FY 1999, NISCUPP awarded 29 new grants for U.S.-NIS partnerships that will provide exchange opportunities to a total of 367 NIS and 357 U.S. citizens. A breakdown by country is provided on the next page.

Successful NISCUPP partnerships have had a strong multiplier effect. For example, the Haas School of Business at the University of California - Berkeley received NISCUPP grants in 1993 and 1997 for partnership activities with the School of Management at St. Petersburg State University (SPSU) in Russia. This collaboration has resulted in the creation of undergraduate, MBA, and doctoral programs in business at SPSU. The doctoral program has enabled SPSU to train its own future faculty, as well as faculty from other universities in northwest Russia. In FY 1999, SPSU initiated a faculty-training partnership with Novgorod State University, and next year, SPSU will begin a similar partnership with Petrozavodsk University in Karelia. A breakdown of participants by country is provided below:

COUNTRY	NIS Participants	U.S. Participants	TOTAL
Armenia	20	27	47
Azerbaijan	12	18	30
Belarus	7	9	16
Georgia	10	9	19
Kazakhstan	23	20	43
Kyrgyzstan	41	48	89
Moldova	57	28	85
Russia	113	114	227
Tajikistan	13	-	13
Turkmenistan	11	7	18
Ukraine	46	62	108
Uzbekistan	14	15	29
TOTAL	367	357	451

NISCUPP partnerships have fostered lasting institutional relationships that extend beyond formal academic curricula. For example, the University of Nebraska worked with partner universities in Kyrgyzstan and Tajikistan to implement Students in Free Enterprise (SIFE) business education activities. Student groups at several universities in Central Asia now compete among themselves to develop business projects and send their best teams to annual competitions in Kansas City. Participating students gain practical experience in preparing and presenting projects and in seeking sponsorship from their local business communities.

NISCUPP partnerships also benefit local communities in the NIS. Several partnerships in the field of law in Russia and Ukraine resulted in the establishment of legal clinics that not only provide practical training for NIS law students but also provide legal assistance to members of the community. For example, in May 1999, Cleveland State University and Novgorod State University organized a workshop on clinical legal education that brought together U.S. and NIS faculty who

have been active in establishing legal clinics at NIS universities. Further information about ongoing NISCUPP partnerships is available through the program's website at the following address: <http://e.usia.gov/education/niscupp>

PARTNERS IN EDUCATION (FSA-funded)

Established in June 1997, USIA's Partners in Education (PiE) Program seeks to improve the content and methodology of social science instruction in schools in Kyrgyzstan, Russia, Ukraine and Uzbekistan. The PiE Program familiarizes English-speaking civic education and social science teachers, administrators and teacher-trainers with U.S. approaches to civic education, providing six-week internships on civic education, teaching methods and curriculum development for 130 NIS educators in FY 1999. The PiE program integrates citizenship education and social science curriculum development activities, as well as special workshops on community-based school governance. PiE participants are selected through an open, merit-based competition, and travel to the United States for an intensive internship and a series of professional development workshops. In many NIS educational institutions, civic education is not taught as a separate subject; rather, it is incorporated throughout their curricula. In such cases, the PiE Program has targeted English-speaking teachers who use civic education themes in their classrooms or teach American studies.

PiE participants stay with American families and are hosted by U.S. universities, secondary schools, private organizations and U.S.-NIS school and university partnerships. In exchange for hosting the NIS educators, 26 U.S. host-school administrators will participate in two-week follow-up programs in the NIS to be designed in collaboration with the NIS educators. In FY 1999, the PiE Program was expanded to include a three-week school directors' program for 22 non-English-speaking directors from participating schools in Russia and Ukraine. In FY 1999, the PiE Program funded a total of 178 participants, who will participate in the 2000-01 program cycle. A breakdown of participants by country is provided below:

COUNTRY	NIS Educators	U.S. Educators	NIS School Directors	TOTAL
Kyrgyzstan	10	2		12
Russia	60	14	14	88
Ukraine	40	8	8	56
Uzbekistan	20	2		22
TOTAL	130	26	22	178

A total of 40 NIS educators in four regional groups successfully completed their internships in spring 1999. The groups, which were placed in Illinois, North Carolina, Iowa, and Virginia, each produced curricula or lessons for their home institutions. Upon returning home, a group from Novosibirsk, Russia, which was placed in Norfolk, Virginia, founded Siberian Links in Civic Education (SLICE), an organization dedicated to promoting human rights and citizenship education. SLICE helped develop student government in one local school in Novosibirsk, and helped establish a civic education resource center with the support of a local representative of the Ministry of Education.

In July 1999, the American Councils for International Education (ACIE, or formerly ACTR/ACCELS) hosted a conference in Ukraine on civic education and American studies that was attended by 35 Ukrainian PiE alumni. A similar conference is planned for St. Petersburg, Russia, in spring 2000.

NIS EDUCATIONAL ADVISING CENTERS (Jointly funded)

USIA's Educational Information and Resources Branch promotes the participation of NIS students and scholars in U.S. academic programs by supporting a network of 61 educational advising centers throughout the NIS. USIA provides books, materials, equipment and training to all 61 centers, 14 of which also receive direct financial support through cooperative agreements with USIA. Services provided to students by the advising centers include group and individual advising, pre-departure orientations for exchange program participants, lectures on special-interest topics, outreach activities, educational fairs, alumni activities, and computer-based testing. The centers, which are open to everyone, also provide information about U.S. Government-sponsored exchange programs.

The Branch also works to strengthen the administration of educational exchanges between the United States and the NIS, and facilitates cooperation between NIS educational advisers and their U.S. counterparts. By working to boost the enrollment of NIS students at U.S. colleges and universities, the Branch helps introduce NIS-related issues to U.S. campuses, thus encouraging cross-cultural understanding.

In FY 1999, NIS professional educational advisers participated in a the annual National Association of Foreign Student Advisors (NAFSA) conference and U.S.-based training program, a senior-level pilot program, a training workshop for advisers from Central Asia, and individual training programs organized by USIA's Regional Educational Advising Coordinator (REAC) for the NIS. New advisers were familiarized with the U.S. system of higher education, while experienced advisers were able to tailor their individual programs to pursue contacts with U.S. university and educational organization representatives. Mid-level adviser training included an internship at a U.S. educational institution. In addition, equipment grants provided computers with Internet access and CD-ROMs for student use in Novosibirsk, Saratov, St. Petersburg and Yekaterinburg in Russia; Dnipropetrovsk and Kiev in Ukraine; Astana, Kazakhstan; and Bishkek, Kyrgyzstan. In FY 1999, new advising centers were established in Voronezh, Krasnoyarsk, and Izhevsk, Russia.

An evaluation of advising centers throughout Ukraine and Georgia indicated that advisers maximize their limited resources through a variety of cost-saving strategies, resulting in a high degree of cost-effectiveness. Monthly statistics for all 61 advising centers showed increases in the numbers of visits by students and scholars interested in studying in the United States, with the highest volumes of visitors in Moscow (53,000 visitors per year); Kiev (20,000 per year); Dushanbe, Tajikistan (24,000 per year); and Tbilisi, Georgia (over 20,000 per year). Similarly, the number of NIS students studying in the U.S. increased for every NIS country in FY 1999, ranging from a 2.6-percent increase in Kazakhstan, to a 61.8-percent increase in Uzbekistan.

ENGLISH LANGUAGE PROGRAMS (Jointly funded)

USIA's English Language Programs complement the full range of U.S. Government-funded FSA exchange programs by improving English-teaching capabilities in the NIS. For example, in FY 1999, five of the 13 English as a Foreign Language (EFL) Fellows placed in Russia focused on improving the teaching of business English in conjunction with the Presidential Management Training Initiative (PMTI) at Moscow's Higher Economic School and Academy of National Economy, St. Petersburg State University, Kazan State University, Perm State University, Samara State Economic Academy and International Market Institute, and the Baikal Educational Center at the Irkutsk State University. A breakdown of EFL Fellows and English Teaching Fellows (ETF) by country is provided below:

COUNTRY	EFL Fellows (FSA-funded)	EFL Fellows (Base- funded)	ETF Fellows (Base-funded)	TOTAL
Kazakhstan		1		1
Russia	13		2	15
Ukraine		1	2	3
Uzbekistan			1	1
TOTAL	13	2	5	20

In Uzbekistan, an ETF helped enlarge the membership of the newly established Uzbekistan English Teachers' Association (UZTEA) and helped train members of all UZTEA branches. The ETF supported USIA's Tashkent-based Regional English Language Officer (RELO) by providing Internet access and training not only to UZTEA members but to all of Uzbekistan's English teachers. The RELO placed over 36,000 USIA-produced textbooks in classrooms throughout Uzbekistan. The RELO also engaged returned FLEX Program alumni to teach English to potential future FLEX participants and conducted similar workshops in Armenia and Azerbaijan.

USIA DEMOCRACY-BUILDING PROGRAMS

DEMOCRACY FUNDS SMALL-GRANTS PROGRAM (FSA-funded)

FY 1999 marks the fifth year of this high-impact small-grants program, under which embassy-based Democracy Commissions in each NIS country award grants of up to \$24,000 to indigenous non-governmental organizations (NGOs) or individuals in support of democracy-building activities, independent media and the free flow of information. In FY 1999, the Democracy Funds Small-Grants Program awarded over 210 grants with a total value of over \$2.1 million. A breakdown by country is provided below:

COUNTRY	NUMBER OF GRANTS	TOTAL VALUE
Armenia	5	\$0.05m
Azerbaijan	19	\$0.21m
Belarus	87	\$1.06m
Georgia	13	\$0.81m
Kazakhstan	10	\$0.79m
Kyrgyzstan	14	\$0.10m
Moldova	27	\$0.17m
Russia*	7	\$0.09m
Ukraine	22	\$0.17m
Uzbekistan	13	\$0.10m
TOTAL	217	\$2.10m

*Russia totals do not include the Contemporary Society Grants Program administered for USIA by the Eurasia Foundation.

Since FY 1995, over 570 grants have been awarded among the participating countries, including 63 in Armenia, 40 in Azerbaijan, 115 in Belarus, 48 in Georgia, 36 in Kazakhstan, 48 in Kyrgyzstan, 61 in Moldova, 80 in Russia, 49 in Ukraine and 28 in Uzbekistan. FY 1999 funds were also used to resume Democracy Commission grant-making activities in Tajikistan and Turkmenistan, where they were initially administered by the Eurasia Foundation. Examples of FY 1999 Democracy Commission grants are provided below, as well as in the country sections in Part I of this report.

Azerbaijan: The Democracy Commission of the U.S. Embassy in Baku funded a non-partisan voter education project in conjunction with municipal elections. Under the project, an Azerbaijani NGO conducted seminars and produced and distributed guidebooks explaining electoral legislation, procedures and rights in predominantly rural areas of Azerbaijan.

Belarus: The Democracy Commission of the U.S. Embassy in Minsk awarded a grant to the independent newspaper *De Facto*, which provides an alternative to government-controlled information about social, political and cultural life in the Mogilev Region, as well as national and international news. The grant helped the newspaper increase its circulation and add coverage of family, gender and youth-related issues.

Kyrgyzstan: The Democracy Commission of the U.S. Embassy in Bishkek awarded a grant to the Movement for the Active Development of Disabled People, a local Kyrgyz NGO that defends the interests of the disabled. The grant supported a series of seminars devoted to empowering the disabled through advocacy training.

CIVIC EDUCATION CURRICULUM DEVELOPMENT PROGRAMS (FSA-funded)

Armenia: The University of Iowa will administer a one-year project to disseminate civic education curriculum materials in Armenia. The University of Iowa is publishing 19,000 copies of civic education materials, organizing two teacher training workshops in Armenia, and providing support for a conference to be held in Yerevan in June 2000. The published materials were developed under an existing USIA grant, under which the University of Iowa is cooperating with six Armenian educators to draft, revise and field-test seven civic education units for Armenian seventh-grade students. All project activities involve substantial cooperation with the Armenian Education Ministry's Center for Educational Reform. In addition, an elementary-level teacher education program initiated in FY 1998 began the pilot testing and revision of civic education materials. In September, the U.S. project director conducted a field-test and team seminar in Yerevan involving 18 pilot-school representatives, six members of the U.S.-trained curriculum development team, and representatives from the Ministry of Education and the U.S. Embassy. The seminar was conducted in preparation for continued pilot-testing and the final editing of a civic education handbook for elementary-school teachers.

Azerbaijan: Montana State University will collaborate with the American Councils for International Education (ACIE, formerly ACTR/ACCELS) and Bozeman (Montana) Public Schools to develop civic education curriculum materials and train 25 Azerbaijani teachers to present the curriculum.

Moldova: The University of Iowa's College of Education will conduct a cooperative project to complete a civic education curriculum framework and materials that will be field-tested in eight schools in Moldova. A final conference will publicize project results and provide training in using the jointly developed materials.

Russia: In FY 1996, the University of Hawaii began a program to develop, field-test and implement a secondary-school civic education curriculum in Krasnoyarsk. The materials will be revised, field-tested, and evaluated in Russia by regional educators and also by education experts outside Krasnoyarsk through a national steering committee. During the course of the project, over 70 teachers will be trained in the implementation of the materials, with a significant percentage of the teachers coming from small towns in the Krasnoyarsk Kray (Territory).

An estimated 30 U.S. and NIS citizens will participate in exchange activities under these civic education grants, with an additional 280 NIS citizens taking part in the training components. A breakdown by country is provided below:

COUNTRY	NIS Participants	U.S. Participants	TOTAL
Armenia	6	4	10
Azerbaijan	6	2	8
Moldova	6	2	8
Russia	3	1	4
TOTAL	21	9	30

USIA INFORMATION PROGRAMS

INTERNET ACCESS AND TRAINING PROGRAM (FSA-funded)

USIA's Internet Access and Training Program (IATP) has established public access Internet sites at selected NIS libraries, universities and information resources centers in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan. The program seeks to provide sustainable Internet access and training in the effective use of Internet resources to alumni of U.S. Government-funded exchange and training programs, their colleagues and other key audiences. The IATP helps participants learn to use the Internet in their professions. For example, as a result of IATP training, an exchange program alumnus from Georgia who works for the Georgian Supreme Court now uses the Internet to find up-to-date information on U.S. and other Western laws and court systems. The IATP has also proven to be an excellent resource for many NIS citizens who wish to learn more about using the Internet, but cannot afford access on their own, especially in the wake of Russia's 1998 financial crisis. IATP in-country coordinators facilitate the technical and educational applications of the Internet for targeted users. The IATP supports follow-on activities for exchange program alumni and facilitates communication with and among alumni. New projects to increase alumni participation included the design of an innovative Web-based alumni portal to facilitate interaction through the Internet. Notably, the IATP administers Internet access facilities in the three regions covered by the U.S. Government's Regional Investment Initiative: Khabarovsk, Novgorod and Samara. In Russia, IATP is administered by Project Harmony, while in the Western NIS, Caucasus and Central Asia, it is administered by the International Research and Exchanges Board (IREX). In FY 1999, the IATP was in the process of being expanded throughout the NIS, most notably in the Russian Far East.

SPEAKERS PROGRAMS (Base-funded)

Through USIA Speakers Programs, U.S. embassies fund American experts to participate in conferences, conduct lectures, lead workshops and seminars, or participate in other programs, either in person or through tele-conferencing. In FY 1999, USIA funded a total of 69 speakers for the NIS countries: two for Armenia, five for Azerbaijan, 11 for Belarus, two for Georgia, six for Kazakhstan, two for Kyrgyzstan, three for Moldova, 29 for Russia, three for Turkmenistan, three for Ukraine and three for Uzbekistan. For example, a Washington D.C.-based newspaper correspondent lectured in Armenia on journalism ethics and helped improve the editorial writing of local newspapers. The director of the Crime Victims' Assistance Office of the Iowa Attorney General's Office participated in a U.S.-Russian joint conference in Moscow on family violence. In Baku, Azerbaijan, a judge from the Baltimore City (Maryland) Circuit Court addressed governmental and NGO leaders on the occasion of the fiftieth anniversary of the Universal Declaration on Human Rights.

MEDIA PROGRAMS (FSA-funded)

Azerbaijan: In FY 1999, USIA implemented supported hands-on programs with Azerbaijani media organizations to help them develop their production skills. A total of nine U.S. experts traveled to Azerbaijan to consult and provide assistance in areas such as journalism education, law, publishing and documentary filmmaking. For example, a widely respected U.S. filmmaker guided a group of Azerbaijani documentary filmmakers through each step of the filmmaking process, as a result of which 11 high-quality documentary films meeting were produced and will be aired on Azerbaijani television.

Moldova: In FY 1999, six U.S. experts Americans traveled to Moldova to share their expertise through the Independent Journalism Center. A photographer and design specialist from Indiana completed a four-week residency in Moldova, where he worked with API-affiliated newspapers and conducted one-on-one training in the field. In addition, a journalist and former attorney from Indiana conducted a four-week residency to help develop a media law program at Moldova's Independent Journalism Center.

Russia: In FY 1999, USIA participated in a \$10 million U.S. Government initiative to help Russia's independent media weather the August 1998 Russian financial crisis. USIA's contributions to this initiative include the following:

- **Small Grants:** A small grant was awarded in support of a documentary film series on social questions in Russia and the United States. The filmmaker leveraged over \$500,000 from U.S. private foundations. The series is now being broadcast on the most-watched Russian television network, and is receiving critical acclaim. A grant was also given to a production arm of the Russian Television and Radio (RTR) Network, to support the production of a series of programs entitled "Conversation with America." The series, which will air this winter on RTR, successfully raised other funds to cover the cost of completing the series. Grants were also given to Russian television crews to help them produce programs on network news coverage in the United States, the Y2K problem, and minority rights in the United States.
- **Professionals-in-Residence:** The first of four USIA-funded professionals-in-residence (PIR) taught market-based management principles to independent broadcasters. In addition, the National Press Institute (NPI) will host a PIR specializing in advertising strategies and newspaper marketing, as well as two other PIRs.
- **U.S.-Based Media Internships:** Up to 20 Russian journalists will come to the United States for training, with an emphasis on managing media resources in times of crisis, downsizing and mergers.
- **Thematic Tour:** A group of Russian journalists will visit various locations in the United States to share their experiences and gain expertise in managing print media.

USIA SPECIAL PROGRAMS

U.S.-EUROPEAN UNION TRANSATLANTIC PARTNERSHIP FOR UKRAINE (Jointly funded)

As described in the Ukraine section in Part I of this report, the United States and countries of the European Union (EU) are collaborating on a two-year, \$5 million civil society project in Ukraine as part of the U.S.-EU New Transatlantic Agenda. Most of the U.S. Government's contribution to this initiative is funded by FREEDOM Support Act funds, with the exception of a Civic Education Support Project funded through USIA's base budget. The Transatlantic Partnership for Ukraine consists of the following components:

- **Civic Education Support Project:** Activities under this project will include the development of secondary-school civic education curricula, Internet and teacher training, and capacity-building projects for the emerging network of civic educators throughout Ukraine.
- **NGO Support Project:** This project will provide small grants to Ukrainian NGOs in target areas such as youth participation in civil society and the development of independent media. The Democracy Commission of the U.S. Embassy in Kiev has already awarded the first small grants under this project.
- **Institutional Support Project:** Activities under this project will include exchange programs for members and staff of Ukraine's Supreme Rada (parliament) in both the United States (with U.S. Government funding) and Europe (with EU funding), a public administration fellowship/internship program, and support for in-depth public policy seminars in the United States for key Ukrainian policy-makers and academicians. The first summer public policy institute under this project was held at the University of Kansas.
- **Integrity Support Project:** This project will support cooperative television productions (TV co-ops) by Ukrainian teams in the United States on themes such as transparency, ethics and accountability. The EU will fund similar The

EU will fund similar cooperative television productions in the EU countries, and will help strengthen Ukraine's National Audit Commission through training in the institutionalization of governmental accountability.

SUPPORT FOR BELARUS PROGRAMS OF THE NATIONAL ENDOWMENT FOR DEMOCRACY (FSA-funded)

In FY 1999, USIA continued to provide supplementary funding to the National Endowment for Democracy (NED) to support its grant-making activities for Belarus. NED conducts competitive small-grants programs that help promote and strengthen the beleaguered non-governmental sector and independent media in Belarus. A total of \$850,000 in supplementary FY 1999 funding, which augmented NED's own \$600,000 in funding for Belarus, supported projects in the following areas: independent national media, independent cross-border radio broadcasting, micro-grant programs for local NGOs, support for regional branches of national NGOs, and support for cross-border political, trade-union and NGO development initiatives.

JUNIOR ACHIEVEMENT INTERNATIONAL (JAI) - NOVGOROD, RUSSIA (FSA-funded)

Under a program initiated in FY 1998, USIA helped establish a Junior Achievement organization in Novgorod, and in FY 1999, helped introduce an applied economics curriculum in Novgorod high schools, and conduct a Global Learning of the Business Enterprise (GLOBE) international business simulation exercise, including student and teacher exchange, between five high schools in Novgorod and five in Novgorod's sister city Rochester, New York. The exchange component involved 10 students and five teachers. A total of 72 Novgorod high school teachers will be trained, and an estimated 2,880 students will benefit from this program.

Materials for the GLOBE exercise, as well as for a management and economic simulation exercise, have been translated into Russian and tailored to fit the Russian culture, economy and educational system. The JAI program has been further customized by focusing on local products and engaging local business leaders with international business experience as consultants at participating schools. Teacher reaction has been enthusiastic, especially with respect to the program's non-ideological approach to applied economics and the use of games as a way to keep students engaged. These activities support the transition away from the traditional emphasis on memorization towards more critical thinking, analyzing and problem-solving. In one participating school, the administrator has made applied economics a part of the standard curriculum. JAI-Russia's fundraising efforts resulted in sponsorship by Citibank, the Rotary Club, Coca Cola, a local printing enterprise in Novgorod, and a regional educational center, enabling JAI-Russia to provide more training and an increased number of textbooks and other materials to teachers, and to enable several students from Novgorod to participate in a national JAI competition in Moscow.

ARMENIA CONNECTIVITY PROGRAM (FSA-funded)

In FY 1998, USIA provided a grant to the American Councils for International Education (ACIE, formerly ACTR/ACCELS) to establish Internet connectivity in six Armenian schools and their six U.S. partner schools. The Internet will be used to develop new social science curriculum modules for Armenian schools. In fall 1999, two teachers from each of five Armenian schools visited their U.S. partner schools; and 10 U.S. teachers traveled to Armenia. The final exchange under this program is scheduled for January 2000.

NOVGOROD MUSEUM LINKAGE PROGRAM (FSA-funded)

As part of the U.S. Government's Regional Initiative in Novgorod, USIA launched a special museum exchange program in FY 1998 between the Colonial Williamsburg Foundation and the Ministry of Culture and United Museum in Novgorod, the primary goal of which is to increase cultural tourism in Novgorod and strengthen the Museum's outreach programs. As the result of a visit by a team of Museum and Ministry representatives to Williamsburg and several visits by Williamsburg's experts to Novgorod, a new theatrical programming element was implemented at the Museum, and a web site in English and Russian is under construction. The Novgorod partners and the Williamsburg project director attended several cultural tourism conferences in cities near Novgorod to help promote the idea of several cities working together to expand cultural tourism in the region.

USAID TRAINING PROGRAMS

In FY 1999, over 8,500 NIS citizens participated in USAID-funded training programs: over 1,400 of them in U.S.-based programs, over 620 in third-country programs, and some 6,500 in programs conducted in their home countries. Since 1997, the majority of USAID's NIS training programs have been implemented through the Global Training for Development (GTD) Project. GTD is the follow-on project to the NIS Exchanges and Training (NET) Project, which was initiated in 1993. Both projects have been implemented for USAID by the Academy for Educational Development (AED). In FY 1999, the GTD Project provided training to 7,263 NIS participants: 1,323 in U.S.-based programs, 607 in third-country programs and 5,333 in in-country programs. The GTD Project continued to emphasize in-country training, particularly in Central Asia and the Caucasus, where the number of participants attending in-country programs increased by almost five percent.

In addition, as part of the Poland-America-Ukraine Cooperative Initiative (PAUCI), USAID continued to support programs that combine training for Ukrainian participants in Poland and the United States to allow them to compare and contrast different models and practices. FY 1999 also saw an increase in the number of participants in USAID-funded long-term academic degree programs, particularly from the Caucasus. As of the end of FY 1999, 15 individuals were pursuing master's degrees in U.S. universities under USAID-funded programs. Program highlights for each of USAID's strategic assistance areas are provided below:

Economic Restructuring

In the Caucasus countries, over 20 in-country programs were conducted on small and medium-sized enterprise development, including topics such as needs assessment, credit, and leadership skills for entrepreneurs. In Central Asia, USAID sponsored a number of in-country and third-country training programs on financial management, tax reform and accounting standards, including programs on tax administration, analysis, audits and collection, and the conversion to international accounting standards (IAS). In Moldova and Ukraine, an emphasis was placed on programs dealing with financial reform and auditing.

- In Russia, USAID-funded training facilitated the establishment of a center for women entrepreneurs to help them start their own businesses and adjust to the country's rapidly changing economic conditions.
- With the help of USAID-funded training, the National Bank of Georgia implemented a computerized system for electronic interbank payments.
- USAID also provided training to support the signing of a number of regional agreements on the shared use of water and energy resources by the Central Asian countries.

Democratic Reform

Several training programs were conducted on the development and role of the media in Central Asia, including a focus on post-conflict situations. Other areas of emphasis in Central Asian training programs included the management and development of the judicial system and conflict resolution.

- Several USAID-funded women's leadership workshops brought together women from Armenia, Azerbaijan and Georgia to strengthen ties among the region's NGOs and establish a Caucasus-wide women's coalition.
- A U.S.-based training program was arranged for six members of the law faculty of Yerevan State University in Armenia.
- In Kazakhstan, USAID-funded training facilitated the participation of NGOs in the drafting of laws on corporate responsibility and accountability through consumers' rights, NGO formation, and environmental protection.
- In Armenia, USAID training facilitated the development of a new civics curriculum and textbook that are being used in approximately 270 high schools.

- In the Caucasus, USAID training facilitated the establishment of the International Union, an NGO for women leaders, with branches in Tbilisi, Baku and Yerevan. Training participants also established a telephone hotline and shelter for victims of domestic violence.

Social-Sector Reform

In the Caucasus, one U.S.-based and six in-country youth development programs linked youth from Georgia and the separatist region of Abkhazia. Sessions on team-building, problem-solving, conflict resolution, leadership development, and English language were held for approximately 450 people. In Central Asia, programs focused on combating tuberculosis, and in the Western NIS, programs emphasized pension and health-care reform. In Ukraine, new courses on sustainable management of natural resources, such as environmental law, management, monitoring, evaluation, and audit procedures, were established in collaboration with the U.S. Environmental Protection Agency (EPA).

- In Ukraine, USAID training facilitated the establishment of a foundation to locate guardians and financial sponsors for orphans, which has already provided assistance to some 200 orphans.
- In Kazakhstan, a former training participant helped draft new laws on welfare, independent pension funds, and state pension funds.
- In Azerbaijan, USAID training facilitated the establishment of a service center for internally displaced persons (IDPs) and poor families.

A breakdown of GTD participants by country and strategic assistance area is provided on the next page:

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

Since 1992, the Commerce Department's SABIT Program has been providing NIS managers and scientists with practical training in U.S. innovation and management techniques by placing them with U.S. companies for hands-on training for periods of six weeks to six months. SABIT's training activities have helped forge hundreds of partnerships between U.S. and NIS businesses. In FY 1999, SABIT provided internships for 315 managers and scientists—two from Armenia, four from Azerbaijan, eight from Georgia, 15 from Kazakhstan, four from Kyrgyzstan, four from Moldova, 204 from Russia, two from Tajikistan, seven from Turkmenistan, 56 from Ukraine, and nine from Uzbekistan—bringing the cumulative number of SABIT participants to 1,749. Over 500 U.S. companies and organizations hosted SABIT participants in FY 1999.

SABIT group training programs implemented in FY 1999 included four sessions of a program on merchandising in Russia (focusing on apparel, food marketing, automotive after-markets and tourism), four environmental technology programs, two water-systems management programs (one for Ukraine, and one for participants from throughout the NIS), a hazardous materials clean-up program, an oil and gas clean-up program, and two programs on standards (one on building and construction and one on food labeling and packaging). A standards program planned for the Atyrau Region of Kazakhstan under the U.S. Government's Atyrau Regional Initiative had to be canceled due to a temporary suspension of assistance to the Government of Kazakhstan. Three training programs were conducted for the Russian Far East, including a customs program, port development program and timber/wood processing program. In addition, SABIT signed a contract to train 30 Ukrainian plant managers in quality management and manufacturing processes. In addition to the group training described above, SABIT organized 65 individual training programs with U.S. companies in FY 1999.

A recently completed independent program review of SABIT activities during the FY 1992-98 period (which was based on personal interviews with 157 randomly selected SABIT alumni from Central Asia, Central and Northwestern Russia and Ukraine) showed that SABIT programs benefit both the NIS participants and their U.S. host companies. Some 66 percent of the interviewed SABIT alumni—and 92 percent of those from Ukraine—had entered into a business relationship with a U.S. firm as a result of their SABIT training, and almost 70 percent of the interviewees had assisted their U.S. host companies in areas such as market access, certification, customs, taxation, shipments, contacts, marketing data and business-climate information. While proportionally fewer business ties were forged between SABIT alumni from Russia and their U.S. host companies, this was more attributable to the Russian economic crisis rather than a lack of interest in doing business with U.S. companies. An overwhelming majority of SABIT alumni reported sharing their newly acquired skills with their co-workers and fellow community members, and over 90 percent of the SABIT alumni interviewed gave the SABIT Program very favorable marks. SABIT alumni are also making positive changes in governmental regulatory

**FY 1999 USAID Global Training for Development (GTD)
Total Number of Participants by Strategic Assistance Area (SAA)**

		SAA 1	SAA 2	SAA 3	SAA 4	TOTAL	Fee-For-	GRAND
		Economic	Democratic	Social	Cross-	GTD	Services	TOTAL
		Restructuring	Transition	Stabilization	Sectoral			
ARMENIA	U.S.-Based	20	36	0	0	56	54	110
	In-Country	1259	60	0	0	1319	-	1319
	Third-Country	16	27	0	0	43	-	43
	Subtotal	1295	123	0	0	1418	54	1472
AZERBAIJAN	U.S.-Based	38	33	1	0	72	0	72
	In-Country	267	0	0	0	267	-	267
	Third-Country	3	17	1	0	21	-	21
	Subtotal	308	50	2	0	360	0	360
GEORGIA	U.S.-Based	20	18	65	2	105	51	156
	In-Country	100	187	497	0	784	-	784
	Third-Country	25	4	64	1	94	-	94
	Subtotal	145	209	626	3	983	51	1034
CAUCASUS REGIONAL TOTAL		1748	382	628	3	2761	105	2866
BELARUS	U.S.-Based	2	0	0	3	5	1	6
	In-Country	0	0	0	0	0	-	0
	Third-Country	0	0	0	0	0	-	0
	Subtotal	2	0	0	3	5	1	6
MOLDOVA	U.S.-Based	0	0	0	0	0	2	2
	In-Country	0	0	0	0	0	-	0
	Third-Country	0	0	0	0	0	-	0
	Subtotal	0	0	0	0	0	2	2
UKRAINE	U.S.-Based	109	58	15	17	199	231	430
	In-Country	1	0	0	13	14	-	14
	Third-Country	46	6	45	0	97	-	97
	Subtotal	156	64	60	30	310	231	541
WEST NIS REGIONAL TOTAL		158	64	60	33	315	234	549
KAZAKHSTAN	U.S.-Based	18	14	20	0	52	28	80
	In-Country	410	42	8	0	460	-	460
	Third-Country	26	21	25	2	74	-	74
	Subtotal	454	77	53	2	586	28	614
KYRGYZSTAN	U.S.-Based	6	0	13	2	21	26	47
	In-Country	218	78	7	0	303	-	303
	Third-Country	17	22	2	3	44	-	44
	Subtotal	241	100	22	5	368	26	394
TAJIKISTAN	U.S.-Based	11	12	25	6	54	7	61
	In-Country	0	178	0	0	178	-	178
	Third-Country	98	44	24	2	168	-	168
	Subtotal	109	234	49	8	400	7	407
TURKMENISTAN	U.S.-Based	17	0	5	0	22	4	26
	In-Country	151	94	1	27	273	-	273
	Third-Country	8	6	15	1	30	-	30
	Subtotal	176	100	21	28	325	4	329
UZBEKISTAN	U.S.-Based	14	6	3	8	31	13	44
	In-Country	1221	389	0	12	1622	-	1622
	Third-Country	10	14	12	0	36	-	36
	Subtotal	1245	409	15	20	1689	13	1702
CENTRAL ASIA REGIONAL TOTAL		2225	920	160	63	3368	78	3446
RUSSIA	U.S.-Based	58	37	0	0	95	194	289
	In-Country	99	0	14	0	113	-	113
	Third-Country	0	0	0	0	0	-	0
	Russia Total	157	37	14	0	208	194	402
SUBTOTALS	U.S.-Based	313	214	147	38	712	611	1323
	In-Country	3726	1028	527	52	5333	-	5333
	Third-Country	249	161	188	9	607	-	607
GRAND TOTALS		4288	1403	862	99	6652	611	7263

agencies in their home countries. One Central Asian alumnus of a SABIT securities program developed regulations for stock inspectors, while another Central Asian alumnus developed safety standards and control systems for perfume and cosmetic products.

Examples of U.S.-NIS Partnerships Forged by the SABIT Program

- A Michigan automotive company, which has hosted dozens of Russian scientists and engineers through the SABIT Program, is currently investing in manufacturing facilities in St. Petersburg and will involve some of their SABIT interns in this venture. The U.S. company and its Russian alumni have worked on collaborative research projects, including the development of sheet-aluminum processing technologies, improved automotive exhaust catalysts and acid leaching.
- The alumnus of a SABIT oil and gas program for the Russian Far East, who is the commercial director of a firm in Khabarovsk, concluded a distribution agreement with an Illinois-based company with which he was familiarized during his training program.
- After participating in a SABIT training program, the director of a trading company in Vladivostok concluded a contract to purchase \$76,000 worth of dry kilns from an Illinois company.
- Upon returning home, a SABIT participant from Kazakhstan who had interned with Statco International was promoted to the position of supervising manager for Kazakhstani contracts for Texaco. The SABIT alumnus recently participated as an interpreter in negotiations between the President of Texaco and the President of Kazakhstan.
- After completing his SABIT training, the director of the Standardization Department of KazGosStandart (Kazakhstan's state standards agency) developed two laws on standardization and certification. In addition, he was appointed chairman of the Scientific-Technical Commission of Kazakhstan on Metrology.
- SABIT program alumni from the Russian Research Institute of Occupational Health will continue collaborative research with the Johns Hopkins School of Hygiene and Public Health in areas such as silico-tuberculosis, occupational asthma and other occupational diseases.
- Seven Ukrainian alumni of a SABIT water systems management program are in the process of forming the Ukrainian Association of Water-Filtering Equipment Producers and Potable Water, an NGO trade association whose mission is to promote the availability of safe drinking water in Ukraine.

Implementation Difficulties

While the SABIT program has a low non-return rate, three SABIT participants from Ukraine did not return home after their internships in FY 1999. SABIT staff are still researching these cases to determine whether the participants are attempting to stay in the United States permanently. To reduce the likelihood of future over-stays, SABIT introduced stricter interview, verification and visa procedures.

The August 1998 Russian financial crisis seriously impacted the growth potential of the businesses of SABIT alumni in FY 1999. However, towards the end of the fiscal year, some SABIT alumni reported a slight upturn in business. The program review also found that the adverse economic situation reduced the number of promotions and job transfers for SABIT alumni in Russia, compared to their counterparts in Central Asia and Ukraine. In addition, access to micro-credit for small businesses continued to be a problem, particularly in Russia. The only available credit was frequently at such a high interest rate that it was not affordable for small and medium-sized enterprises. SABIT alumni return to their countries armed with good ideas to transfer to their companies, but the lack of available capital prohibits them from implementing many of these ideas.

Plans for FY 2000

In FY 2000, in addition to its individual training grant program for managers and scientists, SABIT plans to implement regional development programs for Central Asia, a technology commercialization program for Novosibirsk, Russia, a program in quality management and manufacturing for Ukraine's Kharkiv Region, three standards programs, and three environmental technology programs

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

USDA's Cochran Fellowship Program provides short-term agricultural training programs for NIS agriculturists and policy-makers. Training is conducted in the United States for selected mid- and senior-level practitioners, specialists and administrators, with the goal of enabling them to help develop their home countries' agricultural food systems and strengthening agricultural trade linkages with U.S. agribusinesses. Training is implemented in conjunction with USDA agencies, agricultural trade and market development associations, universities and private agribusinesses. In FY 1999, the Cochran Program used Freedom Support Act (FSA) funds to provide training for 159 participants from 11 NIS countries (excluding Belarus), bringing the cumulative total of FSA-funded participants to 933. Of the 159 participants, six were from Armenia, nine from Azerbaijan, nine from Georgia, 17 from Kazakhstan, 13 from Kyrgyzstan, 15 from Moldova, 39 from Russia, three from Tajikistan, 13 from Turkmenistan, 15 from Ukraine, 20 from Uzbekistan. An additional 30 Cochran participants from Armenia, Russia and Ukraine received training funded by USDA's Emerging Markets Program (EMP). Since FY 1993, the EMP has funded 616 Cochran Fellowships for NIS participants. EMP funding is targeted towards trade-related activities focusing mostly on food wholesale and retail training. Meanwhile, FSA-funded Cochran training covered a wide range of topics, including agricultural policy, land tenure, agricultural bankruptcy, agricultural finance and banking, food safety, food processing and marketing, international trade, regional seed policy harmonization, irrigation technology, agricultural journalism, agricultural market news, farm management, livestock processing and marketing, soybean processing, food wholesale and retail, and management of cooperatives and agribusinesses.

An external evaluation of the Cochran Program in Russia, Ukraine, Kazakhstan 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." Cochran alumni have used their training to start private enterprises (e.g., grocery stores, agribusiness consulting firms, restaurants, farms, farmers' cooperatives and farmers' markets) and to upgrade existing agribusinesses. From a policy perspective, Cochran alumni in Russia have had direct influence on the new land codes, rural land mortgaging, the legal basis for agricultural cooperatives, and the privatization of state-owned collective farms.

In FY 1999, the Cochran Program started requiring Russian and Ukrainian participants to pay their own international airfares. This new policy resulted in 10 cancellations—a 14-percent cancellation rate. A number of the cancellations came at the last minute, necessitating adjustments to training activities and resulting in increased per-participant costs. USDA plans to continue this policy in FY 2000 for Russia and Ukraine, with the hope that cancellation rates will decline.

In addition to the skill-building aspect of the program, Cochran Fellowships also contribute to U.S.-NIS agricultural trade linkages and U.S. agricultural exports:

- After returning to their home countries, Cochran Fellows often import U.S. agricultural products and equipment. According to USDA's agricultural specialist in Uzbekistan, five Cochran Fellows from the country's oilseed industry established many useful contacts with U.S. producers and processors of soybeans. Largely as a result of this training, Uzbekistan imported a total of 123,000 tons of U.S. soybeans for the first time under USDA's GSM-102 and PL-480, Title I Programs, and is likely to continue to do so in the future.
- Cochran Fellows from Moldova and Russia participated in poultry and swine production programs conducted by the American Soybean Association (ASA). According to the ASA, poultry operations in these countries are some 20 years behind modern-day operations, and ASA training will help rebuild production practices, with the broader goal of rebuilding Moldova's and Russia's livestock sectors. These programs are also expected to benefit U.S. soybean exports, which at one time amounted to some four million metric tons per year.
- The Cochran Program collaborated with the World Bank to organize a training program on Central Asian seed policy harmonization, which brought 12 seed-growing and policy experts from Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan to the United States to learn about plant variety protection laws, the roles and responsibilities of the public and private sectors, and biotechnology in the seed industry. The purpose of the program was to help the Central Asian countries establish common variety-registration regulations, as well as phyto-sanitary regulations that encourage seed trade. The World Bank helped identify training candidates and provided funding for two of the participants from Kyrgyzstan.

- As a result of a 1998 Cochran program under which three Tajikistani seed scientists studied U.S. wheat seed varieties at Iowa State University, USDA shipped 2,000 metric tons of winter wheat seed to Tajikistan in October 1999. This shipment will enable Tajikistani farmers to plant for the first time a winter wheat variety with a high production potential, as well as a high tolerance to disease. Also as a result of the training, the Kansas Crop Improvement Association donated seed for seven winter wheat varieties to be tested in Tajikistan. Jagger wheat seed proved to be the most successful. Instead of sending bulk wheat, the USDA Food for Progress Program shipped wheat seed to Tajikistan, and the Tajik Government has requested another 2,000 metric tons of wheat seed in FY 2000.
- After participating in an FY 1999 training program on food safety, Ukrainian Cochran Fellows organized seminars for their Ukrainian colleagues on topics such as quality and safety regulations for raw and processed foods; use of the HACCP system to help Ukraine harmonize its legislation to promote business partnerships; concern over hormones, antibiotics and other content in red and white meat; labeling requirements and laboratory testing methods. The training program promoted food-supply safety by demonstrating the safety precautions of U.S. exporters.
- Two FY 1999 Cochran training programs have led to increased collaboration between U.S. and NIS universities. Ohio State University signed a memorandum of understanding with the St. Petersburg State Agrarian University on agricultural-extension student and faculty exchanges, and Texas A&M University will work with Uzbekistan's Ministry of Agriculture to implement exchanges with Uzbekistani agriculture students and faculty.
- A Cochran alumni group with over 120 members was formed in Ukraine in early 1997, and was formalized in a meeting with the U.S. Ambassador to Ukraine in February 1998. The association is working to develop activities that will help strengthen the role of the organization in Ukrainian agriculture and improve Ukraine's relations with the United States. A similar alumni meeting was organized in Turkmenistan in 1998.

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

Using FREEDOM Support Act funding, the FEP provides five to six months of practical training to university educators from progressive NIS agricultural institutions to increase their capacity to develop academic and adult education programs and curricula in agricultural economics and marketing, agribusiness, and market-based agrarian law. The program establishes U.S.-NIS university partnerships and provides for follow-on support visits by U.S. faculty to participants' home institutions. In July 1999, 18 FEP participants from Russia, Ukraine and Kazakhstan began a six-month training program, bringing the cumulative number of FEP participants to 68: 32 from Russia, 30 from Ukraine and 6 from Kazakhstan. These 68 participants represent 38 different universities, institutes and training institutions: 19 in Russia, 16 in Ukraine and three in Kazakhstan.

The FEP, which promotes the development of sound agricultural policy and effective and competitive agricultural marketing and business systems in the NIS, has the following objectives:

- to increase the number of adults in the NIS who understand market economics by improving the quantity and quality of academic and adult education programs in agricultural economics and marketing, agribusiness, and agrarian law;
- to develop the ability and confidence of participating faculty members to evaluate and revise curricula and courses through the application of basic principles of learning and curriculum development; and
- to establish enduring U.S.-NIS institutional relationships that will catalyze and support curriculum development, course revision, faculty development, and joint research in agricultural economics, agribusiness and agrarian law.

Increasing the number of NIS citizens who understand the workings of a market economy, can teach and create educational materials on market economics, and possess the mindset to adapt to a market economy is critical to the formulation and implementation of sound agricultural policies and the promotion of agricultural development in the NIS countries.

An individualized program is designed for each FEP participant. U.S. university staff work one-on-one or in small groups with FEP participants at each host university. By observing classes in their subject areas, FEP participants have an opportunity to familiarize themselves with new teaching methods. In addition, they learn how to revise existing curricula, develop new curricula, choose and develop class materials, and assess student progress. Through visits to and internships with U.S. agribusinesses, extension and adult education programs, FEP participants gain practical first-hand experience in the day-to-day functioning of the U.S. agricultural research and education systems, as well as of U.S. agribusinesses. During their pro-

grams, FEP participants develop a minimum of three new or revised course outlines for introduction at their home universities upon returning to their home countries.

The FY 1999 FEP participants focus on the following areas: farm management; extension education; agribusiness management and administration; land law and international contract law; agricultural marketing; advertising and international trade. Participating U.S. host universities included Pennsylvania State University, Colorado State University, the University of Nebraska and the University of Wisconsin. FEP participants also took part in a three-week agriculture education/agribusiness tour of Texas, New Mexico, Arizona and California, visiting agricultural economics/business departments at Texas A&M University, New Mexico State University, Arizona State University, and Cal-Poly San Luis Obispo. The 1999 FEP participants returned to their home countries in mid-December 1999. Follow-on advisory visits by U.S. faculty are expected to take place within a four- to eight-month timeframe.

Whenever possible, U.S. faculty also visit with participants from previous FEP programs. In FY 1999, six U.S. faculty members participated in follow-on support visits to 15 participants from the FY 1998 FEP program and five participants from the FY 1997 program. Two planned U.S. faculty visits to Russia were canceled due to disruptions in Moscow related to the conflict in Kosovo. These visits were rescheduled to take place in early FY 2000. Also in FY 1999, U.S. faculty members visited Ukrainian participants from the 1995 FEP program. Activities conducted during these follow-on visits included the reviewing of newly developed course outlines and materials; meeting and discussing curricula revision with department heads, deans and rectors; giving lectures and seminars on market economics and agribusiness-related topics to faculty and students at the participants' home institutions; visiting and meeting with farmers; reviewing and suggesting improvements in extension and adult education programs; and discussing joint research and exchange programs.

In April 1999, one Russian and 12 Ukrainian FEP graduates and eight of their colleagues traveled to Poland to participate in a farm privatization workshop organized by Penn State University and the Polish Government. All costs associated with the FEP graduates' attendance were paid by two Pennsylvania agribusinesses, Penn State University, and the Polish Extension Service. The FEP graduates and the five FEP participants currently at Penn State have been invited to another workshop with the Polish Extension Service that will be held in Vinnitsa, Ukraine, in April 2000 and will be sponsored by the same organizations. The partnership between Penn State and the Vinnitsa State Agricultural Institute has grown from their involvement in the FEP Program. Similarly, rectors and vice rectors from the Sumy State Agrarian University, the Tavria State Agro-Technical Academy, the Poltava State Agricultural Institute, and the Crimea State Agricultural University in Ukraine, and the Voronezh State Agricultural University, the Saratov State Agrarian University, and the Intervolga Regional Training Center in Russia have been invited to visit Penn State University in FY 1999 and early FY 2000 to learn more about agricultural economics and extension education. These trips are being financed by the participating NIS universities, Penn State, and U.S. private-sector sponsors. These visits, many of which are expected to lead to formal partnerships between Penn State and the participating NIS universities, have evolved as a result of the FEP.

A formal evaluation of the 1997 FEP program (which involved 11 participants from Ukraine) was completed in early FY 1999 and indicated notable results and accomplishments. Over a nine-month period following the end of the program, a total of 4,890 people had benefited from the program, taking part in 34 newly developed or revised classes, 30 seminars, and three adult education programs. The FEP participants had written 22 research articles and four extension articles since their return, and were in the process of writing five new textbooks on agricultural economics. Three new departments or programs had been started at the participants' home universities. All of the participants were using new teaching methods in their classes, and many had received promotions that enabled them to have a greater influence on departmental and overall university operations.

In FY 2000, the FEP Program will focus on selecting participants from universities that have not yet participated in FEP or similar programs, supporting U.S.-NIS university partnerships, and encouraging networking and information exchange among former FEP participants and with their U.S. host universities. In early 2000, FEP plans to bring together all 47 FEP graduates and participating U.S. faculty for a workshop in Moscow. This meeting will allow the FEP alumni and their U.S. counterparts to discuss progress and results to date in the areas of curriculum reform and course development, as well as ways in which U.S. universities and USDA can provide on-going and future support to their institutions. The workshop will provide an opportunity to share valuable information and to participate in networking, partnerships, and information-sharing activities. In

CRIMINAL JUSTICE PROGRAMS

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

The ACTTA Program was established by the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) in late FY 1994 in response to the threat posed to U.S. national security by transnational organized crime and related activities, including narcotics production and trafficking, in the NIS and Central and Eastern Europe (CEE). ACTTA training programs seek to familiarize NIS law enforcement officials with new techniques and systems for coping with crime, while simultaneously strengthening the rule of law and respect for human rights. The INL Bureau coordinates international law enforcement programs conducted by 14 U.S. federal law enforcement agencies in 10 NIS countries (excluding Azerbaijan and Belarus). The ACTTA Program seeks to build the NIS countries' capacity to combat transnational organized crime and related activities, including money laundering, other financial crimes and narcotics trafficking, and to develop legislative and institutional capabilities to effectively support criminal investigations and prosecutions. The ACTTA Program also seeks to build the NIS countries' capacity to meet other law enforcement challenges, such as the protection of intellectual property rights, border control issues, and combating trafficking in people (including women and children) and trafficking in stolen vehicles.

The State Department's INL Bureau coordinates the work of the 14 federal agencies currently participating in the ACTTA Program: the Department of Justice (DOJ), including the Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) and International Criminal Investigative Training Assistance Program (ICITAP); the Federal Bureau of Investigation (FBI); the U.S. Drug Enforcement Administration (DEA); the Internal Revenue Service (IRS); the Department of the Treasury; the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); the U.S. Customs Service (USCS); the U.S. Secret Service (USSS); the U.S. Immigration and Naturalization Service (INS); the U.S. Environmental Protection Agency (EPA); the U.S. Coast Guard; the U.S. Department of Commerce; the State Department's Bureau of Diplomatic Security (DS); and the Federal Law Enforcement Training Center (FLETC). The ACTTA Program also works with U.S. non-governmental organizations (NGOs), universities, associations and other institutions to promote its objectives in the NIS.

The centerpiece of ACTTA's regional law enforcement assistance efforts is the International Law Enforcement Academy (ILEA) in Budapest, which was established in 1995 and is located in facilities provided by the Hungarian National Police. In FY 1999, 128 NIS participants attended ILEA's core program, an eight-week mid-level management course, along with colleagues from other Eastern European countries, and 225 NIS law enforcement officials participated in specialized courses at ILEA. In FY 1999, INL provided \$1.5 million in FREEDOM Support Act funds to cover ILEA's operating expenses. The ILEA facility in Budapest has served as a model for the establishment of similar law enforcement academies in Asia, Latin America and Africa. In FY 1999, ILEA provided a venue for short-term technical training programs offered by U.S. federal law enforcement agencies, including the FBI, USSS, INS, USCS, DS, DEA and DOJ/OPDAT. Training topics included the combating of money laundering and financial crimes, computer crimes and organized crime; border control and alien smuggling, specialized drug enforcement, crisis management and criminal profiling. A total of 750 law enforcement officials from the NIS and CEE, including prosecutors, participated in these specialized ACTTA programs in FY 1999.

In addition to training conducted at ILEA, the ACTTA Program provided regional and bilateral training in areas reflecting U.S. and host-country priorities, including organized crime, narcotics trafficking, the often-related areas of money laundering and financial crimes, counterfeiting and economic fraud, and computer crime. Other ACTTA training programs focused on border control and alien smuggling, as well as trafficking in women and children. The FBI and other agencies assisted in strengthening basic competency in police investigations and public safety, for example, through courses in investigative techniques, bomb blast investigation, crisis management and DNA analysis. Other courses, such as assistance offered by OPDAT and ICITAP, focused on prosecutors and general law enforcement management. Since corruption has been identified as a major problem throughout the NIS, INL has funded training and assistance, mainly through OPDAT and the FBI, aimed at combating corruption among public officials and police forces.

Armenia: In FY 1999, INL continued to coordinate and fund police training in subjects such as counter-narcotics and money laundering, as well as more specialized FBI training in homicide investigation and legal procedures for polygraph use. For a second year, INL funded a major U.S. Treasury Department advisory effort on financial enforcement. Armenia has also participated in INL-funded mid-level police training at ILEA in Budapest and in local and regional procuracy training provided by DOJ/OPDAT.

Azerbaijan: Section 907 of the FREEDOM Support Act has precluded INL from providing law enforcement training to Azerbaijan.

Belarus: Since February 1997, the U.S. Government has had a policy of selective engagement with the Government of Belarus, minimizing official contacts and curtailing assistance to Belarusian Government officials. INL has not funded any law enforcement training or activities in Belarus since that time.

Georgia: As part of the Georgia Border Security and Law Enforcement (BSLE) Assistance Program, INL funded a U.S. Justice Department resident legal advisor (RLA) to assist in legal reform, training of the procuracy and the design a major bilateral anti-corruption initiative under the Five-Point Program. (Please see Georgia country assessment in Part II of this report.) INL also funded police training courses, including participation in mid-level police training at ILEA in Budapest. INL is currently coordinating and funding several major advisory programs, including a Treasury Department financial enforcement team that is working with Georgia's Chamber of Controls, a forensic laboratory assessment conducted by ATF, and support for U.S. NGOs working on the issue of domestic violence in Georgia.

Kazakhstan: In FY 1999, approximately 200 Kazakhstani law enforcement officials participated in 20 ACTTA courses. Participating agencies included Kazakhstan's Ministry of Internal Affairs (MVD), Tax Police, Procuracy, the State Investigative Committee, and Drug Enforcement Agency. Topics included basic drug enforcement, document fraud, collection and preservation of crime scene evidence, financial fraud, ethics, and preventing child exploitation and violence against women.

Kyrgyzstan: In FY 1999, approximately 115 Kyrgyz law enforcement officials were trained in eight ACTTA courses. Participating agencies included Kyrgyzstan's Drug Enforcement Agency and Ministry of Internal Affairs. Topics included basic drug enforcement, collection and preservation of crime scene evidence, financial fraud, ethics, and preventing child exploitation and violence against women. In addition, the ACTTA Program is sponsoring a U.S. NGO that works with local Kyrgyz organizations on combating domestic violence.

Moldova: In addition to providing police training in a wide variety of subjects, INL continued to fund periodic seminars and workshops conducted by DOJ/OPDAT to enhance the performance of judges and lawyers in Moldova. INL coordinated and funded a number of advisory programs, including a Treasury Department financial enforcement team working with the Ministry of Interior on combating insurance, bank and credit card fraud; an ATF needs-assessment of forensic laboratory facilities; a U.S. Customs advisory team working with the Moldovan Border Guards and the Customs Service; and the sponsoring of U.S. NGOs working with local Moldovan organizations on combating domestic violence. An INL-funded DOJ/National Institute of Justice (NIJ) program is establishing computer laboratories connecting Moldovan criminal justice agencies to an international criminal justice network.

Russia: In FY 1999, approximately 200 Russian law enforcement officials were trained in 15 ACTTA courses. The training was provided to the following Russian agencies: the Ministry of Internal Affairs (MVD), Tax Police, Border Guards, Immigration Service, Customs Service, Central Bank, the V.E.K., the Ministry of Health and the Procurator's Office. Topics included post-blast investigation, drug enforcement, narcotics interdiction, advanced economic crime, homicide investigation, crimes against children, computer crimes, public corruption, criminal profiling, automation of criminal investigations, human dignity and policing, international banking and money laundering, financial investigations, prosecuting organized crime, and the training of trainers. In addition, a U.S. Environmental Protection Agency (EPA) "train-the-trainer" team has started a two-year program of instruction on environmental enforcement. The ACTTA Program also supported U.S. NGOs working on domestic violence programs, as well as regional community policing programs.

Tajikistan: Tajik law enforcement officials attended the mid-level course at ILEA in Budapest, as well as regional courses conducted outside of Tajikistan by DEA, ATF and other agencies. These courses included DEA's regional drug enforcement school, an ATF post-blast course and DOJ/OPDAT courses on judicial training and combating economic crime and money laundering.

Turkmenistan: In FY 1999, the ACTTA Program provided training to Turkmen law enforcement officials in the areas of border control, counter-narcotics, money laundering and financial crimes. Turkmen police officials attended the mid-level police-training course at ILEA in Budapest. Although Turkmen officials were very grateful for the training, they indicated a desire for more advanced training, as well as for border control courses and additional customs courses, as Turkmen Border Guards and Customs authorities remain concerned about the flow of drugs, illegal weapons and other contraband across the Iranian and Afghan borders.

Ukraine: An INL-funded resident legal advisor (RLA) is assigned to the U.S. Embassy in Kiev to assist the Ukrainian Government in the area of legal reform and to help reform Ukraine's judiciary and procuracy. In September, at the second meeting of the Gore-Kuchma Commission's Law Enforcement Working Group in Washington, D.C., the U.S. and Ukrainian Governments initiated a bilateral working plan for law enforcement cooperation over the next several years. INL continues to coordinate and fund police training programs, including counter-narcotics, money laundering and mid-level police training for Ukraine. INL is also sponsoring a variety of major advisory programs, including a Treasury Department financial enforcement team working with the Ukraine State Monopoly for Alcohol and Tobacco to improve regulatory and taxation operations; an EPA international "train the trainer" team focusing on environmental enforcement, and a DOJ/ICITAP academy development team working with Ukraine's Border Guards. INL is also sponsoring a program through U.S. NGOs to combat trafficking in women. In addition, DOJ and the National Institute of Justice (NIJ) have initiated a research partnership with the Ukraine Academy of Law Sciences, which includes the establishment of criminal justice Internet laboratories, which will give Ukrainian researchers access to international law enforcement data.

Uzbekistan: INL's training efforts in Uzbekistan have gone a long way towards helping Uzbekistani law enforcement officials detect and interdict contraband, and enhancing the U.S.-Uzbekistani bilateral relationship. In FY 1999, Uzbekistani law enforcement authorities were trained in drug enforcement, combating document fraud, crime scene and forensic technology, medical legal death investigation and serology. Uzbekistani police officials also participated in mid-level police training at ILEA in Budapest. As a result, Uzbekistani law enforcement officials have advanced rapidly to become the most technologically advanced and highly trained among their Central Asian counterparts. The U.S. Government is working with Uzbekistani authorities to build a police academy and a forensic laboratory, and to provide further advanced counter-narcotics training.

U.S. DEPARTMENT OF JUSTICE (DOJ) - OFFICE OF OVERSEAS PROSECUTORIAL DEVELOPMENT, ASSISTANCE AND TRAINING (OPDAT)

The goal of OPDAT's criminal justice assistance program is to help the NIS countries reform their criminal justice systems so that they can more effectively combat organized crime and corruption. OPDAT is working with the American Bar Association's Central and East European Law Initiative (ABA/CEELI) and the American University's Organized Crime Centers to pursue the following objectives:

- developing and providing training in effective investigative and prosecutorial techniques and procedures in accordance with relevant legislation;
- promoting effective cooperation between prosecutors and local law enforcement agencies, including joint prosecutor-investigator strike forces and other multi-agency task forces to combat transnational crime;
- monitoring and reviewing the preparation of key criminal and procedural legislation and providing commentary to legislators upon request;
- providing training to high-ranking legal and law enforcement officials on criminal justice topics of mutual interest;
- assisting in the development of a curriculum for indigenous legal/educational training institutes for judges, prosecutors and other entities within the criminal justice system; and
- providing public information/education on criminal justice reforms through local media, public symposia and university lectures.

Armenia: In FY 1999, a DOJ-funded ABA/CEELI ("DOJ/CEELI") criminal law liaison continued to provide commentary on relevant Armenian legislation and to coordinate DOJ/CEELI activities. OPDAT conducted training on prosecuting public corruption in cooperation with DOJ/CEELI. DOJ/CEELI organized a training program for Armenian prosecutors in September 1999.

Georgia: Anti-corruption activities have been designated a high priority for the U.S. Government's assistance efforts in Georgia. In FY 1999, DOJ placed a resident legal advisor (RLA) in Georgia, who has helped coordinate U.S. Government-funded anti-corruption programs in Georgia. The Georgian Government has taken steps to create an anti-corruption agency and the procuracy has agreed to undertake significant reforms in FY 2000. The RLA will concentrate on supporting both of these endeavors.

Kazakhstan: In FY 1999, OPDAT conducted an assessment of Kazakhstan's legal system in anticipation of placing a RLA in Almaty in early FY 2000. OPDAT also provided training to Kazakhstani officials in prosecuting corruption and organized crime.

Kyrgyzstan: In FY 1999, OPDAT conducted a workshop on combating organized crime for Kyrgyz prosecutors, judges and investigators. OPDAT plans to increase the amount of training provided to Kyrgyzstan in FY 2000.

Moldova: In FY 1999, OPDAT conducted workshops and seminars on organized crime, organized crime strike forces and anti-corruption methods. Moldovan prosecutors and investigators also attended OPDAT-sponsored regional transnational organized crime and corruption workshops in Budapest and Romania.

Russia: In FY 1999, OPDAT trained approximately 500 Russian participants through seven training sessions, bringing the program's cumulative totals to 1,650 participants and 14 training sessions. Meanwhile, DOJ/CEELI trained approximately 540 participants through 13 sessions. In addition, a total of 240 people attended six monthly anti-corruption roundtable discussions, bringing the cumulative totals to 2,540 participants in 45 roundtables. In FY 1999, OPDAT sponsored several workshops and seminars focusing on the burgeoning problem of organized crime and corruption in Russia and how best to combat it. In particular, joint cooperation and assistance in combating transnational crime was emphasized, as was the value of mutual investigative and legal support, using real case examples, such as *The United States v. Ivankov*. In FY 1999, a DOJ/CEELI legal assistance program focused on the Russian judiciary. Programs on judicial oversight, from pre-trial investigation through trial and sentencing (a new concept in the Russian legal system), were held for judges throughout Russia. A special emphasis was placed on judicial oversight in complex cases involving organized crime and corruption. In FY 2000, OPDAT will continue to support the development of Russian legal institutions and the training of legal professionals in effective strategies to fight crime and corruption. In FY 2000, OPDAT will continue to coordinate its efforts with the American University's Organized Crime Centers.

Ukraine: In FY 1999, OPDAT provided training for prosecutors, judges and investigators on a variety of topics including organized crime, money laundering, financial crimes, computer crime and corruption. In FY 1999, the DOJ/CEELI legal assistance program focused on the Ukrainian judiciary. Programs on judicial oversight, from pre-trial investigation through trial and sentencing were held for judges throughout Ukraine, including a bail program that encouraged and assisted Ukrainian judges in the use of their country's bail law. OPDAT will continue to coordinate its efforts with the American University's Organized Crime Centers.

Uzbekistan: In FY 1999, OPDAT conducted an assessment of Uzbekistan's legal system. DOJ/CEELI placed a criminal law liaison in Tashkent to work with the procuracy and Ministry of Justice on legislative issues. DOJ/CEELI conducted training for the procuracy in a variety of criminal justice-related areas. Notably, a regional training program held in Tashkent on the procedural requirements of reducing the number of pre-trial detainees resulted in the drafting and adoption of a new bail law.

International Law Enforcement Academy (ILEA) – Budapest: In FY 1999, OPDAT organized three multinational conferences at the International Law Enforcement Academy (ILEA) in Budapest, training a total of 100 participants. The purpose of these conferences was to identify and resolve impediments to cooperation in the investigation and prosecution of transnational crimes. Using a hypothetical criminal case, the participants examined investigative and prosecutorial techniques, discussed how the case would be handled in accordance with criminal laws and processes in their respective countries, and identified how policy or legal shortcomings could be resolved. In the area of legislative drafting, OPDAT's NIS advisors will conduct follow-up assessments relating to the preparation of criminal justice legislation. OPDAT will continue to support the development of criminal justice legislation that provides for effective investigation and prosecution of criminal activities, and the creation of a more effective system of criminal procedures. OPDAT plans to use the ILEA case-study model to help law enforcement and prosecutorial agencies on an international basis by conducting a senior-level transnational criminal investigation symposium in Tashkent, Uzbekistan, for investigators and prosecutors from Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, Tajikistan and the United States. In addition to disseminating information on U.S. investigative and prosecutorial techniques, OPDAT will emphasize the importance of international cooperation.

ENERGY AND ENVIRONMENTAL PROGRAMS

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

In FY 1999, DOE worked to improve safety at Soviet-designed reactors through bilateral and multi-lateral cooperative activities in Russia, Ukraine, Armenia and Kazakhstan. Activities included strengthening the physical condition of the nuclear plants and enhancing safety-related practices. DOE activities also supported the development of an indigenous nuclear-safety infrastructure in these countries. DOE helped establish International Nuclear Safety Centers in Russia, Ukraine and Kazakhstan to promote the open exchange of nuclear-safety information and to facilitate cooperation on safety analysis and nuclear power engineering. DOE activities were conducted in collaboration with personnel at nuclear power plants (NPPs), scientific and technical institutes, and government agencies. In FY 1999, DOE's efforts significantly improved the safety of Soviet-designed reactors and the nuclear infrastructure. Key accomplishments in FY 1999 and previous years are outlined below:

Armenia

- Fire-resistant floor covering and 140 new fire doors were installed at the Metsamor NPP to improve its fire safety.
- Training courses were developed for control room operation, radiation protection and mechanical maintenance. The courses were developed using internationally accepted nuclear training standards.
- Work continued on the construction of a seismic-resistant, spray-pond cooling system for cooling safety-related loads of the Metsamor NPP.
- A safety parameter display system was installed at Armenia's Metsamor NPP to ensure improved control of the plant in case of an accident situation by providing key parameters to plant operators.
- Ultrasonic-testing, valve-repair, vibration-monitoring, and pump-shaft alignment equipment was provided to the Metsamor NPP, along with training to improve the maintenance of safety-related equipment.

Kazakhstan

- DOE and Kazakhstani Government authorities initiated the development of a decommissioning plan for the Aktau BN-350 breeder reactor.
- Conceptual design was completed for a cesium trap to decontaminate the sodium coolant of the Aktau BN-350 reactor. This is a prerequisite for draining and deactivating the sodium. Draining the sodium will technically preclude the re-starting of the BN-350 breeder reactor.
- Fire-safety upgrade equipment was delivered and installed at the BN-350 reactor.
- Software and hardware upgrades were installed to make the BN-350 reactor's safety systems Y2K-compliant.

Russia

- Safety parameter display systems were installed at the Kursk NPP's Unit 2 and the Novovoronezh NPP's Unit 3. The display systems provide crucial information for controlling nuclear plants in the event of an accident.
- Two full-scope simulators were provided to NPPs for training control-room operators. Formal classroom training was conducted at the Balakovo NPP training center. Over 1,800 operators have been trained using U.S. methodology.
- With support from U.S. experts, Russian specialists completed the initial quantification of a probabilistic risk analysis for the Leningrad NPP in-depth safety assessment (ISA). Work continued on ISAs for the Kola and Novovoronezh NPPs. The Kursk NPP ISA was canceled as a result of sanctions against the Russian contractor Nikiet.
- DOE experts provided equipment, training and technical support to address Y2K problems at Russia's NPPs.

- The Smolensk NPP Training Center was provided with a thermo-mechanical training system mock-up. The mock-up provides hands-on training for a variety of NPP technicians by simulating plant mechanical, electrical and control-and-protection systems.
- Workers installed a satellite-based communications device at the Bilibino NPP to allow plant operators to exchange safety and maintenance information regularly with their counterparts in Russia and the United States. The device also provides the Bilibino NPP with an emergency early-warning system.
- To improve fire safety, Smolensk NPP workers applied a fire-retardant material to electrical cables, and the NPP received fire-suppression equipment and protective gear for firefighters.
- An emergency water-supply system was installed at the Kola NPP, and the Novovoronezh NPP was provided with a mobile emergency water-pumping system.
- Russian specialists completed the design of a reliability database for the country's RBMK and VVER reactors. They also completed a software quality assurance plan to be used in the development and operation of the database.
- Symptom-based emergency operating instructions were implemented at the Novovoronezh NPP's Unit 3, and work continued to implement them at Unit 4, as well as at other NPPs.
- Two specialists from the Russian regulatory authority GosAtomNadzor (GAN) worked with staff at DOE headquarters for four weeks, studying DOE's system for analyzing abnormal operating events at nuclear facilities. GAN personnel participated in workshops on radiation protection inspections, fire protection and chemical-process safety. GAN representatives developed a radiation protection inspection plan, which they field-tested at the hot-cell facilities of the Argonne National Laboratory-West in Idaho.
- The International Nuclear Safety Center sponsored a technical workshop on severe accident management in Obninsk, Russia. Work continued on a series of technical projects conducted at the nuclear safety centers in the United States and in Russia. The International Nuclear Safety Center coordinated further progress on a project to validate the application of U.S. computer codes for application to Russian reactor-safety analysis. U.S., Russian, and international experts participated in this joint effort.

Ukraine

- Workers installed safety parameter display systems at seven Ukrainian reactors. Safety parameter display systems provide crucial information for controlling a nuclear power plant in the event of an accident.
- Full-scope simulators were provided to four NPPs to train control-room operators. Formal classroom training was also conducted at the Khmelnytsky NPP Training Center. Over 1,800 operators have been trained using U.S. methodology.
- DOE provided equipment and technical support as work continued towards completing in-depth safety assessments (ISAs) at the Khmelnytsky, Rivne, South Ukraine and Zaporizhzhya NPPs. Ukrainian specialists completed the documentation and assessment of previous analysis work at the Rivne and Zaporizhzhya NPPs. At each site, specialists continue to refine a RELAP5 computer model of the plant. Ukrainian specialists completed a probabilistic risk analysis (PRA) at the South Ukraine NPP, and work was in progress to complete a design-basis accident analysis, as well as other components necessary for the safety analysis report.
- Continued progress was made on a nuclear fuel qualification project, including training for staff for Ukraine's Center for Reactor Core Design and assistance to Ukraine's nuclear regulatory agency on licensing issues. The project developed Ukraine's ability to qualify nuclear fuel for its VVER-1000 reactors from an alternate vendor, with the long-range goal of achieving a secure fuel supply.
- With DOE support, Ukrainian specialists at the Chernobyl Center and Slavutych Laboratory conducted planning for the closure of the Chernobyl NPP, which the Ukrainian Government has agreed to do in 2000. The U.S. Government pro-

vided technical assistance, technology and training needed for the permanent shutdown and deactivation of Chernobyl Unit 1. The U.S. and Ukrainian Governments continued to collaborate on the construction of a heat plant at the Chernobyl NPP. The heat plant will supply much-needed replacement heat after the Chernobyl NPP is shut down permanently. In addition, U.S. experts conducted a technology commercialization workshop at the Slavutych Laboratory, through which Ukrainian specialists learned methods for developing technology-based businesses in order to diversify the economy in the Chernobyl Region.

- DOE experts provided equipment, training and technical support to address Y2K problems at Ukraine's NPPs.
- The Chernobyl NPP implemented a complete set of symptom-based emergency operating instructions, and work continued on implementing them at other Ukrainian NPPs. These instructions allow operators to quickly place a plant into a stable condition if abnormalities arise.
- Workers stabilized a ventilation stack damaged by the 1986 accident at the Chernobyl NPP by replacing damaged braces, stabilizing vertical steel supports, and repairing roof trusses underneath the stack. This accomplishment marked the first resolution of a significant safety issue stemming from the Chernobyl accident.
- Ukrainian and international specialists began carrying out the Chernobyl Shelter Implementation Plan, which details measures to protect workers and the environment, prevent collapse of the shelter (the structure enclosing the damaged Unit 4 reactor), and construct a new shelter to cover the current one. DOE delivered dosimetry equipment for recording shelter workers' exposure to radiation, and trained the workers in its use. DOE supplied STREAM software, enabling Ukrainian personnel to track and minimize shelter workers' exposure to radiation. In addition, the Chernobyl NPP received DOE-supplied equipment (including dust-fixative sprayers, specialized vacuums and air filtration equipment) to suppress radioactive dust in the shelter's peripheral areas. DOE also delivered a range of basic equipment to increase the safety of shelter workers, including fall-protection devices, ladders, hard hats, gloves, respirators and emergency medical kits. To facilitate work inside the shelter, DOE delivered portable electrical generators and compressors, a portable jack-hammer/drill, a jaws-of-life rescue device, two-way radios, and equipment for drilling and sawing through concrete.
- With DOE support, Ukrainian nuclear safety specialists developed a national industry standard for quality assurance.
- With DOE support, EnergoAtom and the National University of Ukraine established a central training and certification facility for nondestructive examination. U.S. and Ukrainian experts are developing a process for certifying technicians as nondestructive examination specialists. Two sets of remotely operated eddy-current equipment were provided to EnergoAtom for use at Ukrainian plants. Zaporizhzhya NPP workers used the equipment to inspect the integrity of 1,500 steam generator tubes at the plant's Unit 6 reactor. Chernobyl NPP maintenance technicians used the equipment to detect the breakdown of the insulation inside the plant's main generators and around high-voltage lines and equipment. They also used infrared thermography equipment to detect hot spots in electrical systems, identifying malfunctioning electrical connections for replacement.
- The Chernobyl and Zaporizhzhya NPPs received fire-suppression equipment and protection gear for firefighters.
- Ukrainian specialists completed the design of a reliability database for the country's VVER reactors. DOE provided computers to make the central database accessible to Ukraine's NPPs.
- With DOE support, Ukrainian specialists developed a nationwide plan for managing the spent fuel from the country's five NPPs. Ukrainian specialists completed an inventory of existing and projected volumes of spent fuel and entered the information in a database. Ukraine received a construction license from the country's regulatory authority and Ukrainian specialists constructed three concrete casks for the spent-fuel dry-cask storage system, whose operating license is still pending.
- With DOE assistance, Ukraine is evaluating ways in which to improve the capacity factor of its existing VVER-1000 reactors so that the plants can produce electricity more efficiently.

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

In FY 1999, the NRC's continued its efforts to strengthen the nuclear safety and regulatory authorities in the four NIS countries in which Soviet-designed reactors are in operation: Russia, Ukraine, Kazakhstan and Armenia. Safety assistance activities focused on increasing the regulatory authorities' institutional capacity and stature, so as to help ensure the operational safety of their country's nuclear power reactors. NRC has been implementing regulatory assistance activities with the State Nuclear Regulatory Administration (SNRA) of Ukraine and Russia's federal nuclear and radiation safety authority (GosAtomNadzor or GAN) since 1992. NRC has provided assistance to SNRA and GAN in such areas as licensing of nuclear power plants, development of a legislative basis for nuclear regulation and legal enforcement, development of an emergency response capability, development of an analytical simulator, and development of a regulatory training program and training center. NRC regulatory assistance activities with the Armenian Nuclear Regulatory Authority (ANRA) and the Kazakhstan Atomic Energy Agency (KAEA) began in 1994. Since then, NRC has provided training for ANRA personnel in such areas as fire protection; radiation embrittlement of metals; radioactive waste and spent fuel management; seismic issues and decommissioning of nuclear power plants. NRC has also helped ANRA developing a safety analysis review capability. NRC has provided KAEA personnel with training in such areas as inspection techniques for operating nuclear power and research reactors and licensing of nuclear power plants. The NRC has also supported the KAEA in developing regulatory decommissioning-related requirements for application at the recently shut-down, Soviet-designed, sodium-cooled, fast breeder reactor at Aktau. In FY 1999, the NRC provided training to 50 Russian, Ukrainian, Kazakhstani and Armenian nuclear regulators, bringing the total number of regulatory officials trained by NRC since 1992 to approximately 650.

U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA)

In FY 1999, as in FY 1998, EPA's activities in the NIS were concentrated in Russia and Ukraine, with about a dozen joint projects being implemented in each country. During the second half of FY 1999, EPA initiated projects in Central Asia and the Caucasus, in addition to its previous work on the establishment of Regional Environment Centers (RECs) in Moldova and the Caucasus region. In all, EPA had about 30 projects under way in the NIS in FY 1999.

The environmental needs of the NIS are immense, and donor assistance for environmental programs is relatively small. EPA's approach in the NIS therefore emphasizes three primary objectives: (1) strengthening the management capacity of NIS environmental institutions responsible for generating and managing the resources necessary for environmental protection; (2) improving environmental quality where possible, primarily through the use of low-cost, innovative environmental technologies; and (3) using demonstration projects at specific sites, with subsequent dissemination to other regions and incorporation of project results into national policy. FY 1999 program highlights are provided below:

Russia

- **Volgograd:** EPA facilitated the reduction of fugitive emissions by 70 percent at the Red October secondary steel plant's electric arc furnace, through the installation of "pre-cast delta" technology made by U.S. companies. Pending the outcome of further feasibility studies, the next step will be to organize local production of pre-cast deltas through a licensing agreement with a U.S. company.
- **Nizhniy Tagil (Urals Region):** EPA facilitated the increase of the point-of-use chlorine residual to 0.5 milligrams per liter in the city's water supply, through continued work on the city treatment plant's chlorinators and other system improvements.
- **Moscow:** EPA initiated a project to develop a least-cost strategy for the control of mobile-source emissions from the city's more than two million vehicles. Moscow City authorities claim a reduction of 100,000 tons of such emissions in the last year, in part through conversion of municipal vehicle fleets to natural gas and an improved inspections and maintenance program. The EPA project extended these efforts and helped introduce catalytic converters in Russia.
- **Murmansk:** EPA facilitated the completing of expansion and upgrading of a facility for the treatment of low-level liquid radioactive waste from the decommissioning of nuclear submarines. A demonstration ceremony for the completion of the processing modules was held in September. Testing and start-up will be completed in FY 2000. In addition, EPA facilitated the completing of the construction of a 40-tonne prototype cask for storage and transport of spent nuclear fuel still onboard decommissioned nuclear submarines docked at naval facilities in the Russian Arctic. This cask is currently undergoing cold testing and is being certified for use by Russian nuclear regulatory authorities. EPA also

initiated a project to construct an 80-tonne prototype cask for the storage and transport of civilian-controlled spent nuclear fuel, much of it damaged and currently stored onboard an aging vessel anchored in Murmansk Harbor. Currently in the design phase, this project is scheduled for completion in 2000.

- **Russia-Wide:** EPA collaborated with the World Bank on a program to phase out the production of ozone-depleting substances (ODS) at all relevant facilities in Russia by FY 2001. Russia is currently the world's second-largest producer of ODS. When finished, the World Bank program will enable Russia to comply fully with the Montreal Protocol.

Ukraine

- **Kiev:** EPA facilitated the completion of installation, initial testing, and startup of E-SO_x technology (a U.S. technology that retrofits electrostatic precipitators to add SO₂ control to particulate control) at the city's municipal waste incinerator, resulting in an average 70-percent reduction in SO₂ emissions. This technology will become increasingly important with the normalization of municipal waste streams in Kiev. In addition, a bilateral agreement was concluded between the U.S. and Ukrainian Governments regarding the formal establishment of the Ukrainian Regional Environment Center (REC) in Kiev. Registration and site identification were moving forward, and the first REC board meeting is expected to take place in February or March 2000.
- **Ivano-Frankivsk Oblast (Region):** EPA facilitated the completion of a demonstration project on environmental impact assessment for oil and gas exploration and development at the Pasichna field. The demonstration emphasized early screening of projects, analysis of alternatives, and public participation in assessing impacts and making decisions. At the request of Ukrainian authorities, work is now under way to incorporate this experience into Ukrainian law.
- **Vynnytsa Oblast:** EPA facilitated the installation and initial optimization of "reburn" technology (using powdered coal as a reburn fuel) for reducing NO_x emissions at Boiler 6 of the 300 MW Ladyzhin regional power plant. Expected results in FY 2000 include a 50- to 60-percent reduction in NO_x emissions, similar to the levels previously attained on Boiler 4 (using natural gas as a reburn fuel).
- **Mariupol:** EPA facilitated the completion of a risk and epidemiological study of environmental impacts on children's health and development; as well as continued progress on building local management capacity to identify and inventory hazardous waste practices, survey waste disposal sites, and establish a waste tracking system. Both activities are building blocks for a comprehensive, community-based environmental action project for the city of Mariupol.
- **Kiev and Donetsk Oblasts:** Partly through support for the Alternative Fuels Center in Kiev, EPA supported the completion of a first draft of an emissions inventory for all Ukrainian coal mines, the development of a handbook identifying the top 30 coal-mine methane (CMM) investment opportunities in Ukraine, and the initiation of business plan development for the top four CMM investment opportunities in Ukraine.
- **Ukraine-wide:** EPA helped improve the capacity of the State Committee for Pesticide Registration to review applications for pesticide import and use, test the effects of imported pesticides, and certify these pesticides for use in Ukraine. Thanks in part to EPA training and provision of computers and other equipment, the Ukrainian Government will have adequate capacity for nationwide pesticide management.

Caucasus

- **Armenia:** EPA provided environmental impact training at the request of Armenian officials.
- **Regional:** EPA facilitated the signing by Armenia, Azerbaijan and Georgia of a founding charter for the Caucasus Regional Environment Center (CREC), as well as movement on the registration process needed for the REC to operate legally. A U.S.-Georgian bilateral agreement on the REC is under negotiation, and a permanent REC site in Tbilisi, Georgia, is being identified.

Central Asia

- **Regional:** EPA facilitated the signing by all five Central Asian countries of a founding charter for the Central Asian Regional Environment Center (CAREC). The CAREC will be located in Almaty, Kazakhstan, and CAREC board can-

didates are being nominated. The U.S. Government will soon negotiate a bilateral agreement for the CAREC and hopes to begin funding CAREC activities in late summer 2000.

- **Stepnogorsk:** As part of a U.S. Government interagency effort to convert a biological weapons laboratory to a civilian facility, EPA has agreed to collaborate with the Stepnogorsk scientists on an environmental monitoring project to help build the laboratory's capacity to do civilian work. EPA will train these scientists and provide technical assistance on environmental monitoring practices and procedures.

NIS-Wide

In addition to the establishment of the RECs, EPA facilitated the establishment of seven other NIS environmental centers that provide training, information and technical assistance. Training courses offered at these centers, as well as other courses delivered by EPA, have trained more than 1,200 environmental specialists. As a result, the centers have gained expertise in providing advanced technical advice on key projects.

Implementation Issues

Most EPA projects at NIS project sites have been successful. The principal successes have been at the local level at individual facilities, whereas the main practical obstacles have been in the areas of equipment certification, VAT and customs duties on imported goods and equipment, and liability and indemnification issues related to construction and technology transfer projects. More broadly, however, the principal difficulty continues to be that of moving beyond demonstration sites to exert influence at the policy or systemic level in each NIS country. It is far too early to speak of any systemic breakthroughs in NIS environmental performance, and the overall environmental situation in the region remains critical.

EPA has sought, where possible, to address this difficulty through cross-cutting efforts to build institutional capacity throughout the NIS and to make essential changes that can contribute to qualitative breakthroughs in NIS environmental performance. One such effort is the transfer of approximately a dozen clean technologies, all of which are cost-effective and readily applicable in NIS conditions. Leveraging of other financial sources is another potential source for disseminating project results. EPA has recently developed the capacity to provide training and technical assistance to enable environmental projects to gain access to capital markets and allow NIS countries to build and sustain stable environmental finance systems. In addition, environmental policy is another means through which the lessons learned at one project site can be extended throughout the NIS. Unfortunately, the NIS countries continue to be generally resistant to EPA's efforts to introduce environmental policy reform. However, the evolution of NIS environmental policies over the past decade has reached the point where focusing attention on selected policy issues is at least somewhat likely to produce results.

In FY 2000, as in FY 1999, EPA programs in the NIS will continue to build on successful projects, fill gaps in the environmental program undertaken by the U.S. Government so far, and work to introduce more systemic change in NIS environmental protection regimes. Project priorities will include policy innovations, including market-based mechanisms for environmental protection; mobile-source pollution; persistent bio-accumulative toxins; environmental security issues; and environmental finance.

SECURITY PROGRAMS

U.S. DEPARTMENT OF DEFENSE (DoD) - COOPERATIVE THREAT REDUCTION (CTR) PROGRAM

DoD's Cooperative Threat Reduction (CTR or "Nunn-Lugar") program was initiated in FY 1992 to reduce the threat posed to the United States by the weapons of mass destruction (WMD) remaining on the territory of the former Soviet Union, by promoting denuclearization, demilitarization, and the prevention of weapons proliferation. Under the CTR program, DoD provides assistance to states certified as eligible to receive such assistance. In FY 1999, the President of the United States certified Russia, Ukraine, Kazakhstan, Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Turkmenistan and Uzbekistan to receive CTR assistance. Through the CTR program, the U.S. Government has helped Belarus, Kazakhstan and Ukraine become free of nuclear weapons, assisted these countries in fulfilling other arms control commitments, and accelerated START reductions in Russia. CTR projects support the safe, secure transport and storage of nuclear weapons prior to their destruction, and the safe and secure 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 reports to the U.S. Congress.

CTR assistance has supported or encouraged the following major developments since FY 1992:

- the decisions by Belarus, Ukraine and Kazakhstan to become non-nuclear-weapons states and the implementation of those decisions, including the withdrawal of over 3,300 strategic warheads from these three countries to Russia for eventual dismantlement;
- the early deactivation of all SS-24 intercontinental ballistic missiles (ICBMs) and elimination of 144 SS-19 missile and launch-control silos and 111 SS-19 ICBMs in Ukraine;
- the purchase and transfer to secure storage of nearly 600 kilograms of weapons-usable uranium from Kazakhstan and additional fissile material from Georgia;
- the purchase of 21 nuclear-capable MiG-29 airplanes, 500 air-to-air missiles, and associated equipment from Moldova;
- the removal of 104 SS-18 ICBMs from their launchers in Kazakhstan and their return to Russia;
- the elimination of 147 SS-18 silo launchers in Kazakhstan;
- the safe and secure withdrawal of all 81 of Belarus's SS-25 mobile ICBMs and launchers to Russia;
- the elimination in Russia of 160 submarine-launched ballistic missile (SLBM) launchers, 50 ICBM silos, 42 strategic bombers, and over 258 ICBMs, using CTR-provided equipment;
- the sealing of 180 former nuclear test tunnels and 13 bore-holes in Kazakhstan;
- the completion of START Treaty government-to-government communication links;
- support for nearly 15,000 former Soviet weapons scientists and engineers by the International Science and Technology Center (ISTC) in Moscow and the Science and Technology Center in Ukraine (STCU) in peaceful research projects (in FY 1996, funding for these activities was shifted to the U.S. Department of State);
- 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 the scientific infrastructure of the NIS countries (in FY 1997, funding for these activities was shifted to the U.S. Department of State);
- the enhancement of NIS export control capabilities (in FY 1996, funding for these activities was shifted to the U.S. Department of State); and
- the initiation of enhanced nuclear material protection, control and accounting (MPC&A) capabilities at over 40 nuclear institutes and facilities in the NIS (in FY 1995, funding responsibility for these activities were transferred to the U.S. Department of Energy).

Weapons Destruction and Dismantlement: Under this 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 the elimination of chemical weapons. Key projects include the following:

- **Strategic Offensive Arms Elimination (SOAE):** The U.S. Government is providing Russia equipment, training, services and logistical support to expedite the elimination of strategic offensive arms pursuant to the START Treaties. This includes assistance with liquid rocket-fuel disposition, SLBM launcher and associated submarine elimination, solid rocket-motor elimination, SS-18 and heavy-bomber dismantlement, and other projects. This 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 provided assistance to complete the deactivation of SS-19 missiles and dismantlement of their silos. The CTR Program is currently assisting Ukraine with similar deactivation and dismantlement activities for its SS-24 systems. DoD is also assisting in the dismantlement of 38 START-accountable heavy bombers. In Ka-

zakhstan, the U.S. Government provided support to eliminate SS-18 launch and launch-control silos and to close nuclear weapons test tunnels at the Degelen Mountain complex.

- **Chemical Weapons (CW) Destruction:** The U.S. is helping Russia destroy its CW stockpile and associated infrastructure. Efforts have focused on designing a CW destruction facility at Shchuchye that the U.S. Government plans to help construct. Construction is under way on a Central Analytical Laboratory (CAL) that will enhance Russia's ability to conduct chemical-agent monitoring at CW storage and destruction sites. The U.S. Government procured and delivered three mobile analytical laboratories to support Russian CW destruction projects. U.S. Government-funded efforts also continued to eliminate CW infrastructure at the KhimProm Volgograd and Novocheboksarsk chemical complexes. The CTR Program is also helping to dismantle a chemical weapons facility in Nukus, Uzbekistan.

“Chain of Custody” Projects: CTR “Chain of Custody” projects help 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 the following:

- **Fissile Material Storage Facility:** Construction continues on a facility for the storage of fissile material derived from dismantled Russian weapons at Mayak in the Southern Urals. DoD is providing design assistance, construction support and equipment, and facility equipment. The U.S. Government is also providing Russia's Ministry of Atomic Energy (MinAtom) 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. Through FY 1999, more than 32,000 fissile material containers have been produced and delivered.
- **Weapons Protection Control and Accounting (WPC&A):** This CTR project focuses on improving security of nuclear weapons during transportation and interim storage. The project was started in April 1995 under two CTR implementing agreements with Russia. Assistance provided includes supercontainers, railcar upgrades, emergency support equipment, automated inventory control and management systems, computer modeling, a personnel reliability program, 50 sets of “quick-fix” fencing and sensors for storage sites, and the development of a Security Assessment and Training Center to test and evaluate new security systems for storage sites. This project is planned to expand to protect over 70 additional storage sites.
- **Material Protection, Control and Accountability (MPC&A) Projects:** MPC&A efforts enhance the security of fissile materials at NIS facilities and institutes, and improve capabilities to prevent, detect and deter theft, diversion, or other unauthorized use of nuclear materials. DOD/CTR provided \$78.5 million for MPC&A activities from FY 1992 to FY 1995. The U.S. Department of Energy (DOE) began to fund MPC&A programs directly in FY 1996. (Please see U.S. Department of Energy - MPC&A section below.)
- **Enhancing Export Controls:** Through FY 1995, approximately \$39 million in export control assistance to the NIS was funded under the CTR Program. This assistance was provided to Belarus, Kazakhstan, Russia and Ukraine to help establish effective and sustainable national export control systems. In FY 1996, the majority of funding responsibility for NIS export-control assistance shifted to the U.S. Department of State. This assistance has consisted of exchanges for government and industry representatives to acquaint them with the need for effective export controls, training for border guards and customs agents to enhance their proficiency, and equipment to support effective export control enforcement. DoD retained some export control and border security assistance programs under the DoD/U.S. Customs Service International Border Security Program. (Please see DoD Counterproliferation and Department of State Export Control/Border Security sections below.)

Demilitarization: The third major area of CTR assistance involves efforts to facilitate the demilitarization and transition of the NIS countries to democratic institutions and market economies. These non-proliferation efforts provide alternative peaceful, civilian uses for former Soviet WMD-related production resources and alternative employment opportunities for former Soviet weapons scientists and engineers. Several projects have been established to provide demilitarization assistance.

- **Defense Conversion:** The U.S. Congress prohibited obligation of CTR funds for defense conversion activities after FY 1996. As a result, no new defense conversion efforts were initiated under CTR in FY 1999; however, ongoing projects continued to assist in the transformation of the former Soviet defense complex into peaceful and productive civilian commercial entities. DoD previously awarded 17 contracts to 13 U.S. companies to work with former Soviet WMD facilities to convert portions of their production capability into non-military commercial ventures. Some exam-

ples of resulting products include integrated circuit boards, air traffic control hardware and software, laser pointers, hearing aids, and dental equipment.

- Defense Enterprise Fund (DEF):** In FY 1995, CTR shifted the focus of its defense conversion efforts from direct creation of joint ventures to DEF projects. The DEF provides loans and grants and makes equity investments in joint defense conversion projects involving U.S. companies and former Soviet enterprises formerly involved in WMD production. Such activities support the elimination of weapons production capability while promoting market economies and democratic political systems. The Fund has converted more than 57,000 square meters of military plant facilities to peaceful activities and helped provide alternative employment for more than 3,700 individuals from the former Soviet defense sector. In FY 1997, funding responsibility for the DEF was shifted to the Department of State under the FREEDOM Support Act. (See also Enterprise Funds section above.)
- 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 with opportunities to work on peaceful civilian research activities so that they would not be tempted to sell their expertise to countries of proliferation concern. The Science Centers are multilateral institutions involving the United States, European Union, Japan and other donors. Through FY 1995, the CTR Program contributed \$49 million to the ISTC and \$15 million to the STCU. Beginning in FY 1996, direct program-funding responsibility shifted to the U.S. Department of State under the FREEDOM Support Act. (Please see U.S. Department of State - Science Centers section below.)
- U.S. Civilian Research and Development Foundation (CRDF):** The CRDF was established in August 1995 by the National Science Foundation (NSF) with an initial CTR grant of \$5 million matched by a \$5 million grant from the Soros Foundation. The CRDF is a non-governmental, non-profit foundation that has also received funding from the State Department, NSF and the National Institutes of Health (NIH). Its goals are to redirect former Soviet WMD scientists to peaceful research, help sustain highly competent scientists and engineers in the NIS and support the development of market economies in the NIS. The CRDF funds project-related grants for NIS scientists, collaborative projects with commercial potential, travel grants for first-time visits to the United States by NIS researchers seeking U.S. partners, and advanced research equipment for selected NIS facilities to enhance their experimental capabilities. (Please see the CRDF section below.)
- Collaborative Biotechnical Programs:** DoD has initiated a program to fund collaborative biotechnical research with former biological weapons scientists to prevent the proliferation of biological weapons expertise and technology, increase access to Russian scientists, and to enhance the transparency of their work. CTR also is seeking to enhance the security of Russian biotechnical facilities through initiation in FY 1999 of a Biological Material Protection, Control and Accountability Program.
- Defense and Military Contacts:** In FY 1999, the CTR Program funded over 300 defense and military contact events in the NIS, including military exercises, high-level exchanges, unit exchanges, ship visits and exchanges of delegations on defense and military topics. (Please see CTR Defense and Military Contacts section below.)

CTR COUNTRY HIGHLIGHTS

(For detailed information on the International Science and Technology Center (ISTC), Civilian Research and Development Foundation (CRDF), Export Control, and Material Protection, Control and Accounting (MPC&A) projects, please see the U.S. Department of State and U.S. Department of Energy sections below.)

BELARUS

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$3,578,000	\$3,353,035
2. Continuous Communications Link	\$1,036,000	\$1,023,132
3. Environmental Restoration (Project Peace)	\$24,950,000	\$24,920,293
4. Emergency Response	\$5,000,000	\$4,982,939
5. Material Control and Accounting	\$2,644,000	\$2,644,438
6. Export Control	\$12,583,000	\$12,465,254

7.	Defense Conversion	\$19,270,000	\$19,246,627
8.	International Science and Technology Center	\$1,034,460	\$1,034,460
9.	Defense Enterprise Fund (DEF)	\$5,000,000	\$5,000,000
10.	Defense and Military Contacts	\$500,000	\$472,075
TOTAL AS OF THE END OF FY 1999		\$75,595,460	\$75,142,253

The United States and Belarus signed a government-to-government umbrella agreement on CTR assistance, eight agency-to-agency CTR implementing agreements, and one memorandum of understanding and cooperation. The umbrella agreement, which was extended for one year in October 1997, has expired. DoD has notified the U.S. Congress of almost \$75.6 million in CTR assistance to Belarus, of which over \$75.1 million had been obligated through FY 1999 and over \$71 million disbursed. No new CTR assistance was provided to Belarus in FY 1999, as the President of the United States did not certify Belarus as eligible to receive CTR and other assistance in FY 1997, 1998 or 1999 due to its poor record on human rights. DoD does not intend to request additional funds for Belarus in FY 2000.

Strategic Offensive Arms Elimination (SOAE): No further funds have been available to continue this project due to the de-certification of Belarus under CTR in 1997 and subsequent years. SOAE programs in Belarus had sought to facilitate the expeditious, safe and environmentally sound elimination of WMD delivery systems. Of the \$16 million initially agreed upon, up to \$8 million had been designated for elimination of fixed structures associated with the SS-25 mobile ICBMs and for the disposition of approximately 10,000 metric tons of liquid fuel and oxidizer. Following technical discussions on liquid propellant disposition, an incinerator was delivered in April 1996. Test burns were scheduled to begin once the Government of Belarus gave permission to proceed, the site was selected, and support materials were in place. The test burns would have enabled environmental certification for propellant incineration as the means to destroy 180 metric tons of heptyl. In consultation with the Belarusian Ministry of Defense, DoD awarded a fixed-fee contract in March 1996 to Controlled Demolition, Inc. (CDI) to dismantle 81 SS-25 fixed structure/launch pads over a 25-month period. The \$1.95 million contract was based in part on the contractor receiving site access by August 1996. The work was scheduled to be completed by April 1998. In August 1996, CDI had its construction equipment delivered to Belarus and made preparations for a prototype demonstration of its mechanical demolition process at Slutsk. However, the Belarusian Government did not authorize site access. Repeated diplomatic efforts to get site access were unsuccessful. As a result, CDI removed its equipment from Belarus and the contract was terminated. No further work will be done on this project.

Continuous Communications Link (CCL): The objective of CCL assistance was to provide Belarus with its own capability to fulfill its reporting requirements under the INF and START Treaties, which it had previously been doing through Russia. Initial operational capability of the first of two planned circuits was established at the end of August 1993. Final operational cut-over with a modernized system equipment configuration was achieved in mid-October 1995. As for the second circuit, DoD and Belarus had developed a proposed arrangement under which DoD would have provided a single-channel ground station to the Belarusian Government in March 1997, which could have modified the station to multi-channel use and could have leased the extra non-CCL channels. Proceeds from the leasing would have been applied to the operation of the CCL, including the lease of the second satellite circuit. However, due to the non-certification of Belarus in March 1997, no further actions were taken and no funds are available for this project.

Emergency Response Equipment and Training: The objective of this assistance was to provide equipment and training to respond to an accident or incident involving a nuclear weapon or fissile material. Equipment, training, and technical manuals were provided. Subsequent to an audit and examination (A&E) finding that the equipment was unused, the Belarusian Government was provided with guidance to clarify use of the equipment. With the removal of the last nuclear warhead from Belarus, DoD was considering a proposal to allow Belarus to use the equipment for training and response to incidents involving non-nuclear weapons materials. Procurement actions for this program were completed in FY 1996 and deliveries and installation of a computer network upgrade and connectivity were completed in April 1997.

Export Control Programs: CTR export control programs assisted Belarus in the building of export control institutions, infrastructure and legislation. Assistance provided to Belarus included the installation of a local area network (LAN) and an wide-area network (WAN) for Belarus's licensing administration, the establishment of an automation-training center, and the provision of pursuit vehicles, communications equipment, and interdiction equipment. Delivery of a cargo x-ray machine, baggage x-ray machines, and radiation detection equipment was completed by August 1996. In December 1996, six pedestrian portal monitors arrived at the Los Alamos National Laboratory for testing and calibration. Testing was completed and the portal monitors were awaiting U.S. Government licensing for shipment. The equipment was delivered through January 1998, including vehicle portal monitors; automated computer connectivity between the main Customs

Ministry, the Ministry of Foreign Economic Relations (MFER), regional Customs offices, and border checkpoints; additional portal monitors; and replacement forklifts. Hand-held radiation detectors and MFER software were delivered in March 1997. An opening ceremony took place in October 1998 at the Customs Ministry. No further actions have been taken in this area.

Material Protection, Control & Accounting (MPC&A): This assistance seeks to create a national system to facilitate the control, accounting, and physical protection of nuclear material used for peaceful purposes. This program is administered by the U.S. Department of Energy (DOE) and since 1996, all additional funding has come from DOE. All MPC&A work at the Institute of Nuclear Power Engineering in Sosny was completed in September 1996. This included MPC&A and non-destructive assay (NDA) training courses at the Sandia and Los Alamos National Laboratories. All MPC&A upgrades for Building 33, including those at the fresh-fuel storage vault, were completed by August 1996.

Defense Conversion: CTR defense conversion assistance sought to convert Belarusian military enterprises to the production of civilian goods, assist in construction of housing to enable demobilization of Strategic Rocket Forces (SRF) officers, and establish retraining centers for qualifying demobilized SRF officers. The completed Belarus Defense Conversion Program was the earliest such CTR effort. Joint ventures and cost-sharing facilitated several joint venture projects—including contracts with Federal Systems Group (FSG) of Virginia; Byelocorp Scientific, Inc. of New York; and KRAS Corporation of Pennsylvania—that helped support work carried out with local firms. Two of these three partnerships were not commercially successful and are now dormant. The third partnership, between FSG and Minsk Computer, had produced and sold battery rechargers, but the partnership did not develop further and was terminated.

- At the request of the Belarusian Government, CTR assistance was provided (from funds available prior to FY 1997) for the construction of housing for demobilized SRF officers whom, under Belarusian law, must be provided with housing upon their retirement. Construction was carried out through an Army Corps of Engineers-managed project awarded to ABB SUSA. A Belarusian construction firm was hired as a subcontractor.
- Equipment for a computer-training center, automotive repair-training center, English language-teaching laboratory, and woodworking retraining center was delivered during the 1993-95 period. During an audit and examination (A&E) of the retraining center program, DoD discovered that civilian dependents of SRF officers were receiving training at those centers for a fee. DoD officials stressed to their Belarusian counterparts that the retraining center was for the explicit use of demobilized SRF officers. The delivery of additional training assistance was postponed, pending further evaluation of training needs. The U.S. Congress has prohibited the use of any additional available prior-year CTR funds for job-retraining assistance.

Defense Enterprise Fund (DEF): Up to \$5 million of the funds provided for the DEF were allocated for equity investments, grants, and loans in joint ventures with Belarusian WMD enterprises. However, because of difficulties with Belarusian privatization laws and DEF conditions, the DEF has not reached agreement on any projects in Belarus.

International Science and Technology Center (ISTC): The ISTC provides alternative employment opportunities for former WMD scientists and engineers so they can pursue peaceful research. The U.S. Government obligated \$5 million for ISTC projects in Belarus. The first U.S. project award (\$488,000) was made in December 1995. In FY 1996, funding responsibility was transferred to the U.S. Department of State under the FREEDOM Support Act. (Please see U.S. Department of State - Science Centers section below.) No new projects have been initiated.

Environmental Restoration: The objective of this assistance was to provide Belarus with the capability to conduct the environmental restoration of former Strategic Rocket Forces (SRF) bases. This project consisted of three elements: (1) the establishment of an analytical chemistry laboratory, which was completed in April 1995; (2) the provision of remote sensors and geographic information system (GIS) equipment and the establishment of GIS and photographic processing laboratories, which were dedicated in March and April 1996, respectively; and (3) the modification of a Belarusian AN-26 aircraft in Kiev to accommodate remote sensors and the provision of technical assistance and training. The AN-26 plane was dedicated in July 1996, and additional installation and follow-on training continued through July 1997. Additional equipment for the chemistry lab was delivered in March 1996 with follow-on training in July 1997.

- A contract was awarded in April 1995 to Arthur D. Little, Inc. (ADL) to complete site assessments at Postavy and Ruzhany, provide field technical training in conducting site assessments, prepare site remediation plans, train Belarusian officials in the organization and management of environmental remediation projects, and co-sponsor an annual environmental conference. Site assessments at both Postavy and Ruzhany revealed similar contamination from semi-volatile

organic materials and heavy metals. The Belarusian Government requested a change in focus from academic and governmental training to demonstration and training in the technologies recommended for remediation. Procurement actions were initiated to redirect ADL's efforts for Postavy, where the first site assessment was to be completed. These technologies will also have application to Ruzhany. An extension to the Environmental Restoration Agreement was signed, effective July 22, 1997. Funds under the contract have been obligated.

Audits and Examinations (A&E's): Four A&E's were conducted in Belarus in 1995. DoD's Belarusian counterparts were helpful, and the A&E's proved very useful. Two A&E's (of export control and industrial partnership programs) were conducted in 1996. Three A&E's were conducted in 1997 of SOAE liquid-fuel incineration, environmental restoration, and emergency response equipment and training; no problems were found. No A&E's were conducted in FY 1998. Three A&E's were conducted in January and February 1999, concluding the auditing and examination of CTR assistance to Belarus.

Other Donors: The U.S. Government was not alone in providing dismantlement-related assistance to Belarus. The German Government's ongoing and planned projects included export controls, officer resettlement and retraining, and housing. Germany concluded a framework agreement with Belarus; and although no specific programs were identified, Germany was considering a project to help the Belarusian Government eliminate oxidizers associated with liquid-fueled ICBMs. The United Kingdom had its own program of defense and military contacts with Belarus. The European Union provided \$60,000 for an ISTC project in June 1996, and Japan provided \$169,000 in ISTC funds for a project in September 1994. NATO allies regularly briefed each other on the progress of their projects in Belarus through the Senior Politico-Military Group on Proliferation (SGP) and bilateral discussions. These issues have also been discussed in G-7 fora. The U.S. Government worked with its allies to ensure that security programs in Belarus were complementary and cooperative.

KAZAKHSTAN

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$74,000,000	\$58,197,443
2. Government-to-Government Communications Link	\$2,600,000	\$2,352,017
3. WMD Infrastructure Elimination	\$25,500,000	\$24,727,648
4. Emergency Response	\$4,903,000	\$4,915,124
5. Material Control and Accounting	\$22,553,000	\$22,537,765
6. Export Control	\$7,260,000	\$7,253,516
7. Defense Conversion	\$17,200,000	\$17,038,031
8. International Science and Technology Center	\$9,000,000	\$9,000,000
9. Defense Enterprise Fund (DEF)	\$7,000,000	\$7,000,000
10. Defense and Military Contacts	\$2,300,000	\$1,570,672
TOTAL AS OF THE END OF FY 1999	\$172,316,000	\$154,592,217

The United States and Kazakhstan have signed a government-to-government umbrella agreement on CTR assistance, and eight agency-to-agency CTR implementing agreements, as well as a memorandum of understanding and cooperation. DoD has notified the U.S. Congress of over \$172 million in CTR assistance to Kazakhstan, over \$154 million of which has been obligated to date and over \$136 million of which has been disbursed. Overall, in FY 1999, programs with Kazakhstan proceeded smoothly, although DoD experienced occasional difficulties with taxation and licensing. In particular, Kazakhstan's Ministries of Defense (MoD) and Science (MSAS), and the Committee on the Defense Industry (CDI), have been good partners and eager to maintain close relations. DoD does not intend to request additional CTR funding for Kazakhstan, with the exception of the Defense and Military Contacts Program in future years, although program implementation continues with prior-year funds.

Strategic Offensive Arms Elimination (SOAE): The objective of this assistance is to facilitate START I implementation. The primary project under this agreement assisted Kazakhstan in the safe elimination and cleanup of all SS-18 silo launchers and launch-control centers, training silos, and silo test launchers, enabling Kazakhstan to fulfill its START I obligations. This project consisted of two phases. In Phase I, Russia was responsible for destroying silo headworks; contracts valued at approximately \$1.2 million were awarded to two Kazakhstani companies to remove equipment deemed valuable to the Kazakhstani Government, prior to destruction of the headworks by Russia. The second phase involved completing the elimi-

nation and re-grading of the destroyed silo sites, including recovery of metal within the site perimeters, under a contract awarded to the Brown and Root/ABB SUSA joint venture for \$31.5 million in November 1995. The last of the 147 silo sites was eliminated and regraded in October 1998. In FY 1999, Kazakhstan once again sought U.S. Government assistance to address environmental remediation outside the site perimeters, but such assistance cannot be provided under CTR authorities. Other sources of funding are being explored. The SOAE agreement was amended in July 1995 to allow the U.S. Government to provide additional dismantlement assistance, such as elimination of infrastructure associated with strategic offensive arms, disposition of excess liquid rocket fuel, and elimination of heavy bombers. At a DoD-MoD/CDI technical meeting in October 1995, requirements were defined for elimination of the seven Bear-G heavy bombers abandoned by the Soviet Union at the Chagan (Dolon) Aerodrome. DoD procured and delivered the agreed-upon elimination equipment to Kazakhstan in fall 1997 and the bombers were verified as eliminated in February 1998. DoD and MoD/CDI have also jointly defined requirements to dispose of the excess liquid rocket fuel left behind by Russia, to eliminate pipes and tanks for fuel at the missile bases, and to dismantle former nuclear weapons storage sites at missile bases and at the Chagan Aerodrome. The final tasks will be accomplished in two phases. Phase I, which involved assessment and preparation for dismantlement, has been completed. Phase II, actual dismantlement, is scheduled to be completed in 2000.

Government-to-Government Communications Link (GGCL): The objective of GGCL assistance is to provide Kazakhstan with its own capability to fulfill its reporting requirements under the INF and START Treaties, which it previously did through Russia. The single circuit link was installed in 1995, and a second multi-channel earth station was also installed. The Kazakhstani Government will use funds earned from leasing the extra channels to pay for the operations of the second GGCL channel. The project was closed out in July 1999. This is the final CTR GGCL project in Kazakhstan. The Department of State is negotiating a separate agreement formalizing the current operational relationship.

Emergency Response Equipment and Training: The objective of this assistance is to provide equipment and training to respond to an accident or incident involving a nuclear weapon or fissile material; however, with removal of the last nuclear warhead from Kazakhstan, DoD has agreed to allow Kazakhstan to use the equipment for training and response to incidents involving non-weapons-related nuclear materials. Further, in response to a request by Kazakhstan's Ministry of Science in October 1997, DoD offered to provide Kazakhstan with mobile labs and associated equipment which would form the core capability of a nuclear emergency response laboratory to assess possible counterproliferation dangers in the Semipalatinsk/Polygon area. In November 1997, the Kazakhstani Government accepted this offer. General Motors shipped four vehicles to Lawrence Livermore Laboratories, where they were configured and delivered in July 1999. Training was conducted at former test sites in the Semipalatinsk region. Deliveries of initial equipment (including chemical and fire-fighting protective clothing, air sampling monitors, radiation monitors, and personal dosimeters) under the original project have been completed. A computer local-area network (LAN) was procured and a DoD technical team traveled to Kazakhstan to install the LAN and provide training in August 1997.

Export Control: This CTR project was completed prior to FY 1999. The objective of this assistance was to help build export control institutions, infrastructure and legislation. CTR-provided computers, customs laboratory equipment, and patrol boats and vehicles now augment Kazakhstan's existing export control infrastructure. Delivery of and training on the customs laboratory equipment took place in October 1995. In addition, six patrol boats were procured to assist with enforcement on the Caspian Sea—five Boston Whaler Vigilants and one Sea Ark Dauntless. The 27-foot Boston Whalers were delivered in April 1996, and the 42-foot Sea Ark patrol boat was delivered in August 1996. Boat training was completed in October 1996. A wide-area network (WAN) for export control licensing was installed in Almaty, linking the Ministry of Industry and Trade, a regional training center (BusinessInform), the Council of Ministers, and other referral agencies. A formal opening ceremony for the training center took place in April 1997. Portions of this export control project supported the overall assistance program for Project Sapphire (which involved the purchase and transfer to secure storage of weapons-usable uranium from Kazakhstan to the United States, as well as related assistance) and were completed by the end of FY 1997. Delivery of pursuit and other vehicles with radios and automation equipment was completed in 1997. Installation of radios on the pursuit vehicles was delayed due to Kazakhstani reluctance to provide DoD with the frequencies they wanted to be programmed. Eventually, several standard frequencies were programmed in the United States. The final shipment to Kazakhstan was made in late April 1997. A total of 21 jeeps, minivans and rangers were provided to Almaty in mid-May 1997. The remaining four vehicles, 28-passenger buses, were delivered in August 1997. These four vehicles are the last of the equipment for Project Sapphire and the final pieces of hardware to be delivered under the Kazakhstani export control project.

Material Control & Accounting (MC&A) and Physical Protection (PP): The objective of this assistance is to strengthen Kazakhstan's existing MC&A and PP systems. DOE programs are under way at the Ulba State Holding Company Fuel Fabrication Plant, the Aktau BN-350 breeder reactor, the Almaty research reactor, and the IGR and Baikal reactor

sites at Semipalatinsk in Kurchatov City. At the national level, the U.S. Nuclear Regulatory Commission (NRC) will assist in developing a Kazakhstani regulatory program as well as an information and reporting system. Beginning in FY 1997, funding has been provided by DOE. At the facility level, DOE has established an MC&A and PP program at the Ulba Fuel Fabrication facility that can be a model for other Kazakhstani facilities. The first DoD technical meetings occurred in July 1994, and the program ran through FY 1998. A local area network (LAN) was delivered to the Atomic Energy Agency of the Republic of Kazakhstan (AEA-RK) in August 1995, and MC&A equipment was delivered to Ulba. Kazakhstan PP specialists have traveled to the United States for technical training, while DOE through 1999 continued to install remote monitoring equipment at Aktau.

Defense and Military Contacts: These programs seek to promote democratic reform of Kazakhstan's military so that it can better interact with U.S. and NATO militaries. Over 58 military contact events took place in FY 1999. These events have included a bilateral working group meeting in Washington, various U.S. National Guard visits to Kazakhstan to assist the country with military environmental cleanup procedures, Kazakhstani defense personnel participation in air doctrine symposiums, and a Kazakhstani visit to the U.S. Military Academy.

Industrial Partnerships: The objective of this assistance is to convert former military enterprises to production of civilian goods. The following projects were funded prior to Congressional prohibition of defense conversion funding:

- **Byelocorp Scientific, Inc. (BSI):** BSI was contracted to convert GidroMash, a former missile and aircraft systems production facility, to designing, manufacturing and distributing valves and pressure vessels for cryogenic materials and gases. The U.S. and Kazakhstani partners worked very well together. The first prototype of a stainless steel cryogenic valve was produced in June 1995, and the production lines for valves, fittings, and other components were up and running. Full production was reached in July 1996, and the export of cryogenic valves began. An additional \$1.25 million was awarded to BSI in September 1997 to establish an additional production line for cryogenic intermodal containers at Byelkamit within 14 months. This project utilized additional former defense factory space and employed 67 former defense workers. This joint venture was among the most successful in Kazakhstan.
- **Allen and Associates International:** Allen and Associates International was contracted to convert BioMedPreparat, a former biological weapons research and production facility at Stepnogorsk, to manufacturing, packaging and distributing vitamins. Initially, the project bottled vitamins imported from the United States; however, the project fell behind schedule, was plagued by cut-offs of electrical service due to BioMedPreparat's failure to pay electric bills, and was terminated at the convenience of the U.S. Government.
- **Kras (Kazakhstan's National Nuclear Center):** This project has been completed. Kras was contracted to convert a former nuclear weapons testing facility into a printed circuit board (PCB) production plant. Production began and a formal opening ceremony for the joint venture was held in September 1996. The joint venture, KK Interconnect, is now selling its products—including a patented universal telephone/modem adapter—in the United States and Europe. The Defense Enterprise Fund (DEF) has taken a 31-percent share of the joint venture in exchange for an equity investment of \$ 3.0 million.
- **Lucent Technologies:** This project has been completed. Lucent Technologies was contracted to convert KazInform-Telecom (KIT), which owns a portion of the Saryshagan test range, into an international telecommunications company and to establish wireless telecommunication in 11 cities using Saryshagan as an international telecommunications downlink. The DEF assisted in capitalization and initial operation of the national/international phone system, and has made a \$3.0 million equity investment.

Defense Enterprise Fund (DEF): DoD has provided a total of \$7 million to the DEF for equity investments, grants, and loans in joint ventures with Kazakhstani WMD enterprises. DEF funding includes the above-mentioned \$3 million for the Lucent project and \$3 million for the Kras venture. (See also Enterprise Funds section above.)

International Science and Technology Center (ISTC): The ISTC provides opportunities for former WMD scientists and engineers to pursue peaceful research. Kazakhstan completed formal ISTC membership procedures in June 1995. A total of \$9 million has been provided by DoD, all of which has been disbursed. In FY 1996, funding responsibility was transferred to the Department of State under the FREEDOM Support Act. (Please see U.S. Department of State - Science Centers section below.)

Weapons of Mass Destruction Infrastructure Elimination (WMDIE): WMDIE programs help eliminate facilities or infrastructure that supported WMD. The WMDIE Program includes a \$24.5 million project to assist Kazakhstan in infrastructure dismantlement at a former Soviet biological weapons (BW) plant at Stepnogorsk and the elimination of nuclear testing infrastructure associated with former Soviet nuclear test tunnels at Degelen Mountain and vertical test holes at Balapan. Through the end of FY 1999, 180 of 181 tunnels and all 13 remaining test holes had been sealed. A DoD contracting team visited Stepnogorsk in December 1996 and signed a contract with BioMedPreparat to inventory equipment at the facility, determine analytical laboratory requirements and prepare for dismantlement. In October 1997, parallel U.S.-Kazakhstani testing of some 1,000 samples taken at Stepnogorsk was completed. The testing was performed in a toxicology lab in Kazakhstan established with CTR assistance, which may be later reutilized for environmental use. The Kazakhstani dismantlement plan was delivered to DoD in early November 1997, and dismantlement initiated in September 1998, will last 18 months. Under the Stepnogorsk Initiative, a broader U.S. Government interagency redirection effort, four projects under DOE's Initiatives for Proliferation Prevention (IPP) program also are underway and two more in development. WMDIE funds also helped pay for activities under Project Sapphire, which involved the purchase and transfer to secure storage of weapons-usable uranium from Kazakhstan to the United States.

Audits and Examinations (A&E's): An A&E of Government-to-Government Communications Link (GGCL) activities was conducted in Kazakhstan in July 1995 and went smoothly. In 1996, three A&E's were conducted in Kazakhstan on export control, emergency response and defense conversion activities. The A&E on export control assistance identified only one minor discrepancy, and corrective action was subsequently taken. In 1997, A&E's on WMDIE assistance at Degelen Mountain and on SOAE silo launcher elimination took place in August, an A&E on export controls was conducted in October, and an A&E on MC&A was completed in late 1997. In 1998, three A&E's were scheduled for Kazakhstan on emergency response equipment and training, WMDIE assistance (BW) at Stepnogorsk, and GGCL assistance. An A&E on emergency response equipment and training was conducted in June 1998, with one minor discrepancy identified and subsequently corrected. The two A&E's for Kazakhstan were conducted in August 1998 and found no major discrepancies. Three A&E's conducted in FY 1999 found no major discrepancies. Kazakhstan continues to be a very cooperative partner in the conduct of A&E's.

Other Donors: The U.S. Government is not alone in providing dismantlement-related assistance to Kazakhstan. Germany's ongoing and planned projects include export control and officer resettlement/retraining assistance. The U.S. Government is coordinating efforts in support of Japan's MC&A upgrade project at the Aktau BN-350 breeder reactor, which involves the installation of a spent-fuel gate monitor. The European Union has funded two ISTC projects worth approximately \$443,500, Sweden has funded three projects for a total of \$425,000, and Japan has funded one ISTC project at \$215,400. NATO allies regularly brief each other on the progress of their projects in the Senior Politico-Military Group on Proliferation (SGP) and in bilateral discussions. These issues have also been discussed in G-7 for a and under the Expanded Threat Reduction Initiative (ETRI). DoD continues to work with other nations to ensure that U.S. programs in Kazakhstan are complementary and cooperative.

RUSSIA

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$529,600,000	\$378,695,047
2. Weapons Storage Security	\$133,200,000	\$75,947,281
3. Weapons Transportation Security	\$44,300,000	\$33,049,063
4. Fissile Material Storage Facility Design	\$15,000,000	\$14,998,584
5. Fissile Material Storage Facility	\$268,600,000	\$206,995,925
6. Fissile Material Processing & Packaging	\$9,400,000	\$0
7. Fissile Material Containers	\$80,507,291	\$70,281,004
8. Reactor Core Conversion	\$80,800,000	\$49,726,718
9. BW Proliferation Prevention	\$5,000,000	\$3,765,864
10. Chemical Weapons Destruction	\$280,500,000	\$170,505,011
11. Emergency Response	\$16,436,000	\$14,624,326
12. Security Enhancements for Railcars	\$21,500,000	\$21,442,783
13. Material Control and Accounting	\$44,789,000	\$44,520,698
14. Export Control	\$2,260,000	\$2,245,494
15. Armored Blankets	\$3,322,000	\$2,991,247

16.	Defense Conversion	\$38,000,000	\$36,602,334
17.	International Science and Technology Center	\$35,000,000	\$34,892,568
18.	Civilian R & D Foundation (CRDF)	\$10,000,000	\$10,000,000
19.	Arctic Nuclear Waste	\$30,000,000	\$30,026,624
20.	Defense Enterprise Fund (DEF)	\$10,000,000	\$10,000,000
21.	Defense and Military Contacts	\$15,137,000	\$13,194,379
TOTAL AS OF THE END OF FY 1999		\$1,673,351,291	\$1,224,504,949

The United States and Russia have signed a government-to-government umbrella agreement on CTR assistance, twelve agency-to-agency CTR implementing agreements, one implementing protocol, and one memorandum of understanding and cooperation. DoD has notified the U.S. Congress of over \$1.6 billion in CTR assistance to Russia, of which over \$1.2 billion has been obligated through FY 1999 and over \$790 million disbursed. Cooperation has evolved and strengthened over the years in DoD's interaction with the Russian ministries administering the CTR program, including the Ministry of Defense (MoD), the Ministry of Atomic Energy (MinAtom), the now-disbanded Ministry for Defense Industry (MDI), and the Ministry of Economy (Minecon). In June 1999, the U.S. and Russian Governments extended the CTR Umbrella Agreement through 2006.

Since FY 1997, the CTR program has focused increasingly on Russia. About \$383 million of the \$440.4 million appropriated for CTR in FY 1999 was earmarked for Russia. To position Russia to reduce its force structure to START II or potential START III levels, DoD, MoD and MinEcon agreed in December 1997 on new CTR projects to support the required missile systems dismantlement, strategic submarine elimination, and enhance nuclear weapons and fissile material security. Several of these projects are underway. In 1999, projects were being developed to help the Russians process and package fissile material in the post-dismantlement stage and to prevent the proliferation of biological weapons (BW) expertise and technology.

Strategic Offensive Arms Elimination (SOAE): SOAE assistance provides Russia with equipment, training, services and logistical support to help expedite the elimination of strategic offensive arms pursuant to the START treaties. This effort includes assistance with liquid rocket-fuel transportation and disposition, SLBM launcher and associated submarine elimination, ICBM silo launcher elimination, solid rocket-motor elimination, ICBM dismantlement, heavy bomber elimination and other projects. It also includes equipment for emergency support in case of an accident during transport or elimination of missiles. Equipment shipments have continued steadily since July 1994. MinEcon assumed executive agency duties from the disbanded MDI. DoD awarded a contract to eliminate nine Delta and the first of five Typhoon SSBN submarines with SLBM launchers, and plans to contract to eliminate at least 30 additional SSBNs with SLBM launchers. DoD is procuring infrastructure and equipment to expand SLBM launcher and associated submarine elimination. In FY 1998, DoD awarded a contract to transport, defuel, eliminate, neutralize and dismantle SLBMs from the Yankee- and all Delta-class SSBN submarines. Together, these projects will increase Russia's capability to eliminate its SSBN submarines from five to ten per year. A solid rocket-motor elimination facility contract was awarded in April 1997 to Lockheed Martin for \$52.4 million, but the project was delayed 18 months by a Russian Government decision to change the facility location from Perm to Votkinsk and the need to accomplish a new technical feasibility study. The new facility will eliminate SS-24s, SS-N-20s and SS-25 solid rocket motors. DoD is developing a project to eliminate SS-18 heavy-lift ICBMs in accordance with the stringent START II procedures by procuring equipment and building additional infrastructure needed for Russia's existing SS-18 dismantlement facility at Surovatikha. In FY 1999 a contract worth \$10.5 million was awarded for this effort. DoD is currently designing modifications to the SS-11 elimination facility at Piban Shur to configure it to eliminate SS-19 and SS-17 ICBMs.

Nuclear Weapons Transportation Security: DoD and the MoD are cooperatively working to enhance the security of nuclear weapons during transport in connection with their destruction. Under CTR, DOD has completed the procurement of armored blankets, security enhancements for warhead transport rail cars, 150 supercontainers, and emergency support equipment.

- **Armored Blankets:** The objective of this assistance is to provide ballistic protection by wrapping warheads or containers with armored blankets. A total of 1,500 surplus U.S. Army LANCE ballistic blankets were shipped in July 1992, and 2,520 new kevlar blankets had been shipped by June 1993.

- **Rail Car Security Enhancements:** This assistance provides training and equipment to modify cargo and guard rail cars for transport of nuclear weapons destined for dismantlement. Security upgrade kits for 100 cargo and 15 guard railcars had been provided to MoD as of October 1994, and all but 32 were installed by Russia. Due to the MoD's lack of funds, DoD contracted with a plant in Tver to install the remainder in April 1996. In 1999, a new project was being developed to procure computer equipment for an information analysis system to support nuclear accident assessment, response and clean-up activities.
- **Supercontainers:** Supercontainers enhance nuclear weapons security and safety during transport. In February 1998, the 150th British-designed supercontainer for enhanced physical security and adverse environment safety during transportation was delivered. Two prototypes will be provided for use in training.
- **Emergency Support Equipment:** This assistance provided equipment, training and technical manuals to enhance the MoD's capability to respond to accidents involving nuclear weapons in transit to dismantlement activities. Subsequent follow-on training may be conducted. Five sets of emergency support equipment and overpack containers to be carried on the nuclear weapons shipment trains for use in case of a rail accident were delivered in 1997. The last pieces of equipment—three Canberra radiation detection units being modified for underwater use—were delivered in March 1998.

Nuclear Weapons Storage Security: The objective of this assistance is to establish cooperation between DoD and the Russian MoD in enhancing the security of nuclear weapons storage in connection with their destruction, and the prevention of nuclear weapons theft or diversion. Important improvements to the security of Russia's nuclear weapons storage include an Analytical System and Software for Evaluation of Safeguards and Security (ASSESS) computer model, as well as training to assess site and guard-force security vulnerabilities. As Russia currently does not allow access to its sensitive nuclear weapons storage sites, DoD and MoD have developed special audit and examination (A&E) procedures to ensure that assistance for nuclear weapons storage sites is being used for its intended purpose.

- **Security Assessment and Training Center (SATC):** Construction of a new SATC at Sergiev Posad to test and evaluate new security alarm and access denial equipment was completed in FY 1999. In November 1997, the Russian company Eleron was awarded a contract to produce the security design for the SATC, and the U.S. company Bechtel was awarded a contract to outfit and establish the SATC. Once a suite of equipment is selected it will be procured and installed at up to 50 of Russia's national nuclear weapons storage sites, up to 48 Russian Air Force and Navy sites, and as many as 25 Strategic Rocket Forces (SRF) sites. A 90-percent design review was completed in November 1998. Deliveries of "quick-fix" upgraded fencing and sensors (50km) took place from September through December 1997. The MoD has installed about fifteen percent of the equipment at the first 50 national weapons storage sites and is working to install the remainder as soon as possible.
- **Nuclear Weapons Automated Inventory Control and Management System (AICMS):** Initial computer equipment for establishing an AICMS has been procured and delivered. The MoD's analysis of the AICMS prototype was completed in 1997, and the MoD agreed to have a U.S. integrating contractor assist in development of computer architecture and the procurement of computer and interface components. Contracts were awarded for certification activities and for procurement of AICMS personal computers and networking equipment.
- **Personnel Reliability Program (PRP):** CTR provided equipment and training for upgrading Russia's PRP. Portable drug and alcohol testing equipment arrived in November 1997, and related training was completed in early 1998. Polygraph equipment arrived and was installed in January 1998. A fixed-site laboratory contract was awarded in December 1998. Construction of the laboratory was completed on November 1, 1999, and operations are expected to begin in early 2000.

Fissile Material Storage Facility at Mayak: The objective of this assistance is to help the Russian Government provide safe and secure storage for fissile material from dismantled nuclear weapons. DoD is committed to provide design assistance, construction support, and construction and equipment for the storage facility being built at Mayak in the Southern Urals. DoD reexamined the amount that it plans to contribute to support the cost of building the facility. Prior to the August 1998 Russian financial crisis, DoD had expected the Russian Government to budget and expend an amount sufficient to cover the remaining construction cost and all related infrastructure costs. In January 1999, DoD reached agreement with MinAtom to a total and final cost of DoD assistance of no more than \$412.6 million to construct a fissile material storage facility with a capacity of 25,000 containers. A total of \$150 million in CTR funding is being used for the Russian-led construction of the facility and procurement of facility equipment, as well as for additional design assistance. U.S.-provided

construction equipment (e.g., bulldozers, excavators and cranes) has been delivered to Mayak and is being used in the first phase of the construction process. As part of the joint administrative team, DoD's on-the-ground presence for the duration of the project at Mayak is helping to expedite construction. During FY 1999, construction activities resulted in the main storage building being completely enclosed. Construction was also completed on the first section of storage nests. The first storage building with a capacity of 25,000 cans of material is scheduled to be completed by 2002. DoD continues to monitor project milestones, as well as the status of Russian Government funding for this project.

Fissile Material Containers (FMCs)/Post-Dismantlement Processing: The objective of this assistance is to provide MinAtom with containers for the transport and storage of fissile material from dismantled weapons. The original plan was to store 50,000 FMCs in the Mayak facility. DoD awarded a contract for delivery of 33,000 FMCs. As of the end of FY 1999, 32,453 FMCs had been produced and 26,450 had been shipped to Russia. The rest are in storage in the United States until Russian storage requirements are finalized. MinAtom has also requested U.S. assistance in the post-dismantlement and conversion process, which includes building inserts for the FMCs to hold the fissile material, reshaping the material and loading the inserts. Initial joint technical discussions took place in 1999, and DoD has indicated that it will proceed with this project; however, there are many questions that still need to be answered by MinAtom. One important requirement for the project will be adequate transparency to ensure that the fissile material is from nuclear weapons—this will probably require U.S. access to sensitive Russian facilities.

Core Conversion Activities: The objective of core conversion assistance has been to modify the reactor cores of Russia's three remaining plutonium-producing reactors in Tomsk and Krasnoyarsk in order to halt the production of weapons-grade plutonium as soon as is safely possible, while allowing the reactors to continue to provide heat and electricity to the regions' residents. DoD is the project manager, with technical assistance provided by DOE and the Nuclear Regulatory Commission. DoD contracted the Phase II effort (design and testing) with DOE-Richland and Pacific Northwest National Laboratory (PNNL). A CTR implementing agreement was signed in September 1997. DoD, through 1999, moved ahead with parallel phases on the type of fuel to be used in the converted cores—highly enriched uranium (HEU) or low-enriched uranium (LEU), with the objective of stopping plutonium production safely at the earliest possible date. In 1999, MinAtom sent DoD a preliminary revised schedule, indicating conversions of one reactor in 2001, a second reactor in 2002, and the final reactor in 2003. This proposal is being extensively analyzed along with other proposed changes to the program.

Chemical Weapons (CW) Destruction Assistance: This CTR program to assist Russia in destroying its CW stockpile and associated infrastructure has three elements: (1) provision of chemical-agent analytical monitoring capabilities, (2) design and construction of a CW destruction facility (CWDF), and (3) elimination of CW production facilities.

- The CTR Program has been renovating and equipping a Central Analytical Laboratory (CAL) in Moscow as part of a multi-laboratory system to support the development of analytical methods and procedures for the safe, secure, and environmentally sound destruction of Russian CW. Upon completion, this facility will enable Russia to conduct laboratory and toxicology studies for its extensive destruction and demilitarization program with a high degree of accuracy. In tandem with the CAL, three mobile monitoring labs have been provided to Russia.
- The CTR Program plans to provide assistance for the design and construction of a pilot-scale destruction facility for the elimination of nerve-agent-filled artillery munitions. The facility is to be located at Shchuchye, in the Kurgan Oblast (Region), where some 14 percent of Russia's nerve agent munitions are stored. The Russian Government's Environmental Expert Review Board approved the overall Russian justification of investment (JOI) for the CWDF project in January 1998, allowing the Main State Expert Review Board to complete its review of the JOI and the Kurgan Oblast authorities to select the site for the destruction facility near Shchuchye in June 1998. Site dedication took place in September 1998. FY 1999 activities included completion of technical documentation (30% design) to support land allocation process, sub-component testing of munitions destruction process line, detailed design for 1:100 agent destruction process scale-up, and drafting of joint plans for construction, systemization and operation training.
- The U.S. Congress has prohibited the obligation or expenditure of FY 2000 appropriations, or any appropriations thereafter, for the planning, design or construction of a CWDF in Russia. This Congressional action was taken largely as a result of concern with the slow progress by Russia in meeting its construction-related requirements at the Shchuchye CWDF site and the lack of international assistance for the project. CTR Program staff has discussed these issues with Russian MOD officials, who recognize the problem and are working to correct it. Specifically, Russia has agreed to obtain the necessary land allocation documents and construction permits in an aggressive manner and is moving forward with the necessary social infrastructure construction. In addition, through the CTR Program and the

Expanded Threat Reduction Initiative (ETRI), the U.S. and Russian Governments are actively pursuing international support for funding of Russia's CW infrastructure requirements.

- The CTR Program is also assisting with the demilitarization of two of the five Chemical Weapons Convention (CWC)-declared former chemical weapons production facilities (CWPF) at OAO Khimprom, Volgograd and OAO Khimprom, Novocheboksarsk, Russia, leaving them ready for conversion to peaceful purposes. Two of the remaining CWPFs have expressed interest in CTR demilitarization assistance. Demilitarization operations will consist of decontamination, dismantling and destruction of specialized equipment and special features related to the production, transfer, and storage of chemical agents/weapons, and their precursors as outlined in the CWC. Where more appropriate and cost-effective, facilities will be demilitarized through demolition. FY 1999 activities included the awarding of a contract to complete a pilot project and plan for demilitarization of remaining buildings within the GB (sarin) and GB (soman) nerve agent production areas in Volgograd; and a contract to demilitarize the first building and plan for three additional buildings with VX nerve agent weapons production area in Novocheboksarsk.
- Now that Russia has ratified the CWC, international donors are needed to provide assistance to Russia's overall CW destruction effort. A NATO-based process to help coordinate such assistance is now under way and efforts to seek additional international support have been given momentum through the Expanded Threat Reduction Initiative (ETRI).

Biological Weapons (BW) Proliferation Prevention: The objective of this assistance is to prevent the proliferation of BW technology and expertise by joint research at former Soviet BW institutes on biodefense. Building on a pilot project carried out by the National Academy of Sciences (NAS), DoD has established the management and contracting structure to identify research priorities, evaluate proposals, identify partners and allocate funding for this project. CTR is working in conjunction with the Department of State and a number of other U.S. Government agencies to develop these collaborative relationships. These efforts increase transparency and access and build confidence that former Soviet BW facilities are not being used for military modernization. These projects also provide exchange opportunities to Russian and American scientists. During FY 1999, eleven collaborative research projects were approved and are in development. In addition, the CTR Program is developing a Biological Material Protection, Control and Accountability program similar to the one associated with Russia's nuclear sites. The aim of this program is to prevent theft or diversion of dangerous pathogens.

Defense Conversion: The objective of CTR defense conversion programs is to convert former military enterprises to the production of civilian goods. The following projects were funded prior to the Congressional prohibition on additional defense conversion funding:

- **Industrial Partnerships:** Three industrial partnerships in Russia succeeded in converting and privatizing former WMD-related military facilities to establish civilian production of high-performance hearing aids, dental chairs and infection-control solutions, and air traffic control hardware and software. These partnerships enhanced the commercial potential of former high-technology military enterprises and served as a reminder of the vital importance of involving private partners and capital in conversion endeavors.
- **Housing:** DoD provided \$20 million for American Housing Technologies, Inc. (AHT) to work with one or more Russian defense firms to convert and privatize defense facilities and establish housing-assembly and component-manufacturing capabilities for the production of prefabricated housing for demobilized Russian officers and the Russian housing market. The project envisions establishing production lines for windows and doors, brass casting (for the production of boilers), roofing, and housing assembly by converting two Russian aerospace enterprises formerly engaged in production of WMD-related items. More than 70 percent, or 20,000 square meters, of factory space at the enterprise Komposit has been converted to produce fiberglass windows, doors, window glass, faucets and shingles, ultimately employing 2,500 former defense workers. Mashinostroeniye has converted 3,000 square meters and will employ 300 former defense workers to produce windows and doors. Production on these lines is expected to begin in the near future. Plans call for housing assembly to be established pending identification of a suitable Russian defense firm to provide the factory space.

Defense Enterprise Fund (DEF): The DEF has invested in eight projects in Russia, primarily in the areas of telecommunications, information technology and materials recycling. The DEF has been effective, not only funding successful conversion projects in Russia, but also helping the Russian Government and the Russian defense industry understand the requirements investment projects must meet to attract private venture capital. As a direct result of DEF investments, a former manufacturer of nuclear submarine components is now building excavation equipment, scientists and engineers who were

involved in nuclear weapons testing now produce circuit boards, and satellite tracking technology is now employed in private telecommunications applications. (See also Enterprise Funds section above.)

International Science and Technology Center (ISTC): The Moscow-based ISTC provides opportunities for former Soviet WMD scientists and engineers to pursue peaceful research. The ISTC is a multinational organization to which DoD provided \$64 million in CTR funds before funding responsibility was transferred to the U.S. Department of State under the FREEDOM Support Act in FY 1996. (Please see U.S. Department of State - Science Centers section below.)

Civilian Research and Development Foundation (CRDF): The CRDF provides research and development opportunities for NIS scientists, particularly from the defense sector, and encourages links between NIS scientists and U.S. scientists and businesses. CTR funds, contingent upon the receipt of matching funds (\$5 million was initially provided by the Soros Foundation), were provided to establish this National Science Foundation-administered program. (Please see CRDF section below.)

Material Control and Accounting, and Physical Protection (MC&A and PP): This assistance strengthens Russia's capability to detect and deter possible theft, diversion or other unauthorized use of nuclear material. Physical protection enhancements help to detect, delay and respond to adversarial acts, including theft and sabotage. The U.S. Government also helps national and facility-level Russian authorities enhance their capability to effectively track and report on nuclear material inventories as well as illicit transfers. In FY 1995, the U.S. Department of Energy (DOE) became the executive agent for these programs, and beginning in FY 1996, funding responsibility for this program shifted to DOE. (Please see U.S. Department of Energy - MPC&A section below.)

Export Control Programs: Export control assistance helps prevent proliferation by strengthening Russia's export control capabilities. CTR funding has supported the Russian Government's participation in conferences, training and information exchanges in order to integrate it into the international export control community and to facilitate more effective control of sensitive exports and adherence to international control regimes. Responsibility for this program was shifted to the U.S. Department of State in 1996. All remaining DoD funds have been obligated and disbursed. (Please see U.S. Department of State - Export Control section below.)

Arctic Nuclear Waste Assessment: Several studies have been performed under this initiative, which was established in FY 1993 as primarily a unilateral U.S. Government effort to investigate and analyze nuclear waste disposal in the Arctic regions. The Russian side has been cooperative, but no formal agreements have been reached, and none are planned. DoD has obligated almost all of the \$30 million notified to the U.S. Congress for this effort and has completed the research.

Audits and Examinations (A&E's): Although the U.S. Government's rights to conduct A&E's are spelled out in the CTR Umbrella Agreement and various CTR implementing agreements, in response to Russian requests, DoD worked with various Russian counterpart agencies in late 1995 and early 1996 to define administrative arrangements for the conduct of A&E's. Since then, A&E's in Russia have generally operated smoothly, with notable exceptions in cases where projects are under MinAtom's purview. Discussions are under way to resolve these A&E issues. In September 1997, supplementary special arrangements were developed to permit DoD to account for assistance being provided to enhance the physical security of sensitive nuclear-weapons storage sites. The initial A&E for this unique project successfully occurred in mid-1998. A&E's continued through FY 1999 and are expected to continue as CTR agreements provide for their execution for three years following the terms of the relevant implementing agreements.

Other Donors: The U.S. Government is not alone in providing dismantlement-related assistance to Russia. Germany's ongoing and planned projects in Russia include emergency response equipment and training, fissile material conversion, chemical weapons destruction, nuclear reactor safety, environmental protection and housing. Germany has also completed projects on officer resettlement and retraining, has provided a large robot to be used in case of a radiation accident, and is interested in developing MPC&A projects in Russia. Germany is also providing equipment for CW destruction at Gorny. Italy is involved in providing emergency response equipment and training and is considering support for social infrastructure at Russian CW destruction sites. France is assisting with dismantlement tools, supercontainers, radiation protection and detection equipment, and a storage facility for hydrogenated-lithiated materials resulting from the dismantling of Russian nuclear weapons, as well as sponsoring a joint French-Russian study on the potential use of nuclear materials recovered from Russian weapons elimination (particularly plutonium) in civilian reactors through transformation into mixed oxide fuel. France is also considering CW destruction assistance. The United Kingdom is also providing supercontainers and trucks specially outfitted for weapons transport, is funding officer resettlement and retraining, and has indicated an interest in assisting with infrastructure needs at Shchuchye if the U.S. Congress lift its restrictions on DoD funding construction

there. Canadian funding supports defense conversion projects, nuclear reactor safety and environmental protection. Norway is developing submarine elimination and related projects and is considering assisting with CW elimination. DoD is working with the Japanese to define useful areas for their assistance in the field of weapons material protection, safety and security. Japan has expressed interest in supporting emergency response assistance and has awarded a contract for a low-level liquid waste elimination barge to support Russian submarine elimination. The Netherlands, Sweden and Finland are supporting Russian CW destruction at Kambarka, and the Netherlands is also considering support for submarine elimination and projects associated with CTR's Mayak fissile material storage facility. NATO allies regularly brief each other on the progress of their projects. These issues have also been raised and discussed in G-7 fora and in the context of the multi-agency and multinational efforts under the Expanded Threat Reduction Initiative (ETRI). The United States continues to work with other donor nations to ensure that our programs remain complementary and cooperative. The U.S. and Russian Governments co-hosted a second international assistance conference to accelerate CW destruction efforts, which took place in Moscow in mid-June 1999 and was well-attended.

UKRAINE

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Nuclear Arms Elimination	\$413,900,000	\$355,394,722
2. Government-to-Government Communications Link	\$2,222,000	\$2,017,670
3. WMD Infrastructure Elimination	\$23,400,000	\$13,395,732
4. Emergency Response	\$3,110,000	\$3,109,796
5. Multilateral Nuclear Safety Initiative	\$11,000,000	\$11,000,000
6. Material Control and Accounting	\$22,215,000	\$22,192,542
7. Export Control	\$13,890,000	\$13,868,887
8. Defense Conversion	\$55,730,000	\$55,047,985
9. Science and Technology Center - Ukraine	\$15,000,000	\$15,000,000
10. Defense and Military Contacts	\$7,500,000	\$5,433,322
TOTAL AS OF THE END OF FY 1999	\$567,967,000	\$496,460,654

The United States and Ukraine have signed a government-to-government umbrella agreement on CTR assistance, nine implementing agreements, and one memorandum of understanding. To date, DoD has notified the U.S. Congress of almost \$568 million in CTR assistance to Ukraine, of which over \$496 million has been obligated through FY 1999 and over \$422 million disbursed. Despite some early difficulties, CTR efforts in Ukraine have become one of DoD's most successful programs. With the Ukrainian Government's official decision to eliminate the SS-24 missile system and eliminate several Bear H and Blackjack heavy bombers and their associated air-launched cruise missiles (ALCMs), CTR projects and further funding requests are expected to continue. In 1999, the U.S. and Ukrainian Governments extended the CTR Umbrella Agreement through 2006.

Strategic Nuclear Arms Elimination (SNAE): SNAE activities help facilitate START I implementation and will help eliminate all strategic nuclear weapons systems in Ukraine, including the SS-19 and SS-24 ICBM systems, and up to 38 heavy bombers. SNAE assistance has included grants that were critical to the removal, processing and transportation of all strategic nuclear warheads (approximately 1,900) from Ukraine to Russia, allowing Ukraine to announce its nuclear-free status in June 1996. Through the end of 1999, CTR had eliminated 111 SS-19 missiles, 144 SS-19 launch silos, including one training silo, and 13 launch control center silos. SNAE assistance to Ukraine helped eliminate the SS-19 and is currently eliminating the SS-24 silos and missiles, as well as the remaining START-accountable heavy bombers. Assistance provided through 1999 included equipment and personnel training, logistics and maintenance services, integration of contractors to eliminate missiles and silos, and housing for retiring SRF officers. An SS-19 missile neutralization and dismantlement facility (NDF) that can process up to six missiles per month was commissioned in July 1996. By February 1999, this facility had eliminated all 111 SS-19 ICBMs and was being used to eliminate transport and launch canisters, and aggregate instrument block units. The pace of the SS-24 project accelerated in June 1998, when contracts were awarded to Bechtel for silo elimination and Morrison Knudsen for initial disassembly and storage. DoD plans to dismantle 46 launch silos and five launch control centers. Thus far, 10 silos have been eliminated. SS-24 missile disassembly, storage, and elimination activities include renovation and construction of facilities required for temporary storage of missiles and missile disassembly, and providing services required to disassemble and eliminate 54 SS-24 ICBMs and one SS-24 first stage. In addition to elimination of the delivery system, a missile liquid-fuel storage facility was expanded by 3,800 metric tons (MT)

to hold over 5,000 MT of SS-19 fuel. The fuel from all 130 missiles is already in storage. In December 1997, the Ukrainian Government submitted an official request to the Secretary of Defense for specific CTR assistance in eliminating as many as 44 START-accountable heavy bombers and 1,068 associated ALCMs. (The START Treaty lists 25 Bear Hs and 19 Blackjacks in Ukraine.) Raytheon was awarded an integrating contract for bomber elimination in June 1998, and the first bomber elimination began in November 1998, witnessed by Senator Lugar and a Congressional delegation. Ukraine subsequently negotiated the transfer of eight Blackjacks, three Bear Hs and 575 ALCMs to Russia, and these transfers are underway as of January 2000. The Government of Ukraine also identified five additional Bear Hs at Belaya Tserkov for elimination, and requested CTR assistance during a U.S.-Ukraine Bilateral Working Group meeting in November 1999. With the addition of these five aircraft for dismantlement and the ultimate transfer of 11 heavy bombers and the ALCMs to Russia, the CTR program currently plans to eliminate a total of 38 heavy bombers (including one converted to static display and two for environmental surveillance) and the 493 remaining ALCMs. In addition, CTR will be providing assistance in destroying 44 non-deployed START-accountable ICBMs (SS-19s). Ukrainian law provides that military officers must receive housing on retirement. To provide the officers' housing required for dismantlement of the SS-19 system and to assist in downsizing the Ukrainian military, DoD constructed 605 housing units for SRF officers at Pervomaysk and Khmelnytsky. This element of the SNAE project was completed in 1997.

Weapons of Mass Destruction Infrastructure Elimination (WMDIE): WMDIE assistance seeks to eliminate the infrastructure necessary to support WMD forces, including physical plants, support systems and materials. All WMDIE programs in Ukraine are scheduled to be concluded by FY 2002. Elimination of missile propellant facilities and deactivation of nuclear weapons support infrastructure at the Pervomaysk and Khmelnytsky ICBM divisions is already under way.

Export Control Programs: The objective of these programs is to build and strengthen Ukraine's export control institutions and infrastructure. DoD has provided automation equipment for Ukraine's licensing, enforcement, and customs administrations, as well as customs interdiction equipment. Equipment procured under this program includes office automation equipment, local area networks (LANs), customs laboratory equipment, and x-ray enforcement and radiation-detection equipment. All efforts have been completed and the project was closed out on October 21, 1999. Funding for this effort has shifted to U.S. Department of State. (Please see U.S. Department of State - Export Control section below.)

Material Control & Accountability and Physical Protection (MC&A and PP): This assistance provides systems to detect and deter the theft, diversion or other unauthorized use of nuclear material. Beginning in 1996, funding responsibility for this program was transferred to the U.S. Department of Energy (DOE). Work is under way at four nuclear sites in Ukraine to provide the infrastructure associated with implementing MC&A and PP. Throughout FY 1998, technical exchanges and site visits were used to identify specific hardware requirements and to demonstrate systems. Training courses in non-destructive assay, as well as MC&A and PP were held for staff from all of Ukraine's nuclear facilities. As of the end of FY 1999, procurement actions had been initiated for x-ray vans, baggage x-ray machines, contraband detectors, access control systems, and perimeter and interior intrusion-detection systems for all four facilities.

Civilian Cooperative Nuclear Reactor Safety Upgrade: The objective of this assistance is to provide a nuclear reactor simulator for training of reactor operators and engineers to enhance safe operation of nuclear power plants. The U.S. Government has helped establish a National Nuclear Training Center with a computer-based, full-scope simulator that simulates the behavior of a VVER-1000 nuclear power plant. This project is administered by DOE, and involves simulator hardware and software design and engineering, training, construction and testing, shipping, installation, spare parts, and other support. The simulator was delivered by the U.S. Government in October 1997.

Government-to-Government Communications Link (GGCL): The objective of GGCL assistance is to provide Ukraine with its own capability to fulfill its reporting requirements under the INF and START Treaties, which it had previously done through Russia. The first GGCL circuit is now installed and operational. A software upgrade was completed in March 1996. Software and operations training took place in mid-August 1996. DoD technical teams visited Ukraine in November 1996, February 1997, and June 1997 to prepare for the installation of the second GGCL circuit, which will use a single-channel, satellite ground station provided by DoD. Ukraine will modify this station at its own expense into a multi-channel circuit and will use the proceeds from leasing the extra channels to pay for the leasing and operation of the second circuit. The satellite ground station installation was completed in January 1999. Final configuration and testing were not performed. The agreement expired prior to Ukraine's Ministry of Defense (MoD) completing its requirements to obtain terrestrial and international segments. No additional actions will be taken at this time.

Emergency Response Equipment and Training: The objective of this assistance is to provide the Ukrainian MoD with equipment and training to respond to an accident or incident involving nuclear weapons during transit related to dismantlement.

ment. Although emergency response equipment was delivered, including communications equipment for a command and control computer network, fire-retardant suits, anti-contamination suits, cranes, and personal dosimeters, the completion of the transport of all nuclear weapons back to Russia obviated the need for most of this equipment. As a result, the corresponding implementing agreement was allowed to lapse after December 18, 1996. DoD approved a plan to sell some of this equipment to fund needed maintenance to SS-24 missile monitoring systems. All activities associated with this program, including training and equipment support, have been terminated.

Science and Technology Center - Ukraine (STCU): The STCU provides opportunities for former Soviet weapons scientists and technical experts to pursue peaceful research. Initial U.S. Government funding was complemented by \$2 million from Canada and \$2 million from Sweden. Funding responsibility for the STCU shifted to the Department of State in FY 1996. (Please see U.S. Department of State - Science Centers section below.)

U.S.-Ukraine Industrial Partnerships: The objective of industrial partnership programs between U.S. and Ukrainian firms is to convert former Soviet military production capability to peaceful, civilian uses.

- **Federal Systems Group (FSG)/Kommunar:** FSG was awarded a \$3.25 million contract by the Defense Special Weapons Agency (DSWA), now the Defense Threat Reduction Agency (DTRA), to form KomTel, a joint venture with Ukraine's Kommunar Production Association, Inc., to assemble and manufacture cellular phones. FSG was to contribute \$1.5 million to the creation of this \$4.4 million joint venture. FSG provided equipment and completed the contract. Kommunar expressed concerns over FSG's performance, and as a result, DoD has been working with Kommunar to help it find a new joint venture partner. DoD contracted with the KRAS Corporation to conduct a feasibility study of cellular phone production at Kommunar, with the goal of identifying a new investor for the joint venture. The study found that cellular phone production in Ukraine was economically feasible, but that finding a new cellular phone partner for Kommunar was unlikely, due to a non-competitive agreement between FSG and Kommunar. DTRA contracted with the International Executive Service Corps (IESC) to work with Kommunar to develop business plans and to set up a business center to facilitate searching for potential partners for products other than cell phones. Subsequent discussions between Motorola and Kommunar on assembling hand-held two-way radios at Kommunar facilities failed to result in the formation of a joint venture.

Audits and Examinations (A&E's): Responding to Ukrainian requests, DoD worked to develop administrative arrangements in 1995 and 1996 for the conduct of A&E's as provided under the CTR Umbrella Agreement. DoD conducted four A&E's in 1995 on a trial basis. In 1996, DoD conducted successful A&E's of rocket propellant disposition, silo launcher elimination assistance under the SNAE agreement, export control assistance, emergency response equipment, and MPC&A assistance in Kharkiv and Kiev. A total of five A&E's were conducted in Ukraine in 1997. In response to a January 1997 Ukrainian Government request, DoD conducted a comprehensive A&E covering \$68 million worth of SNAE assistance. Other A&E's were completed in fall 1997 on the GGCL, export control and defense conversion projects. An additional A&E in December 1997 covering SNAE silo launcher elimination and liquid rocket propellant disposition found several major pieces of equipment in unserviceable condition, but repairs were made. Follow-up A&Es were scheduled through 1999. A&E rights in Ukraine will end upon the termination of either individual implementing agreements or the CTR Umbrella Agreement, whichever occurs first.

Defense and Military Contacts: The objective of these contacts is to promote improved defense relations between U.S. and Ukrainian military personnel and institutions. In FY 1999, the U.S. and Ukraine conducted over 182 contact events between various DoD organizations and their Ukrainian counterparts, including Bilateral Working Group meetings and Joint Staff talks in Ukraine, Ukrainian visits to the U.S. National Training Center, U.S.-hosted peacekeeping simulation exercises, and a U.S. Air Force Air Mobility Command visit to Ukraine. These contacts are scheduled to continue, with exchanges and interaction currently planned through the fourth quarter of FY 2005.

Other Donors: The U.S. Government is not alone in providing dismantlement-related assistance to Ukraine. The U.S. Government is prohibited from pursuing any new housing projects or environmental projects in Ukraine, making those areas prime candidates for assistance from other donor nations. Germany's ongoing and planned projects include silo elimination assistance, officer resettlement and retraining, housing, defense conversion and energy conservation projects. Italy is also involved in the latter. Six SS-19 silos were destroyed in 1996 and 1997 with German assistance, using a water-cutting technique. The Germans have also received a Ukrainian Government request for eliminating up to nine SS-24 silos using this same technique. DoD is coordinating closely with Ukrainian and German officials to optimize silo elimination efforts. The United Kingdom offered assistance to help dispose of rocket fuel, as well as retraining and medical support for the officers working with the toxic fuel. Ukraine declined the first offer, stating that it prefers to store the fuel. The Netherlands and

Norway are providing medical equipment to Ukraine. Canada and Sweden are partners in the STCU, and the European Union and Japan have expressed interest in participating as well. Canadian funding also supports industrial projects, MPC&A, nuclear reactor safety, and an environmental restoration program, all of which are closely coordinated with DoD's SNAE assistance. NATO allies regularly brief each other on progress of their projects in the Senior Politico-Military Group on Proliferation (SGP) and in bilateral discussions. These issues have also been discussed in G-7 fora and under the Expanded Threat Reduction Initiative (ETRI). The United States continues to work with other donor nations to ensure that security programs in Ukraine are complementary and cooperative.

UZBEKISTAN

The CTR Program is working with Uzbekistan's Ministry of Defense to demilitarize the former Soviet chemical weapons production facility (CWPF) in Nukus. The Nukus CWPF, formerly known as the Soviet Chemical Research Institute (CRI), was the most modern—and from a proliferation standpoint, the most dangerous—chemical weapons institute in the former Soviet Union. This demilitarization project is scheduled for completion in late September 2000. FY 1999 activities included the signing of an implementing agreement in May 1999, the conducting of a project site survey in late August, and agreement on a detailed dismantlement plan in mid-October.

CTR DEFENSE AND MILITARY CONTACTS PROGRAM

Since 1994, the U.S. Government has sought to strengthen its military relationships with the NIS countries through the CTR Defense and Military Contacts Program. Through bilateral military exchanges, the U.S. Government seeks to promote demilitarization (e.g., military reform and restructuring, transparency, regional confidence building measures, etc.) and counter-proliferation efforts, helping the NIS countries improve their border controls as a means of safeguarding material and technology related to weapons of mass destruction. U.S. bilateral contact programs with the NIS have been quite successful, and momentum is clearly continuing to build. The Defense and Military Contacts Program has grown from initial familiarization exchanges among senior officials to ever-expanding substantive exchanges between counterparts at all levels of government, from enlisted personnel to field grade and flag officers, and ministers of defense. The sheer number of annual contacts continues to increase over time, from the low tens in the pre-CTR years, to over 300 contact events in FY 1999. These increased bilateral contacts have resulted in strengthened channels of communications with NIS military services and have facilitated the start of their transition to Western military models.

In FY 1999, bilateral military activities with the NIS included meetings between U.S. and NIS defense ministers and military leaders, bilateral working groups, defense consultative groups (with Russia) and Joint Staff talks that covered the full range of ongoing defense and military cooperation issues with these countries; specialist exchanges on specific issues of mutual interest; unit visits and familiarization exchanges; port calls and ship visits; and bilateral exercises. Annual program expenditures have ranged from approximately \$8 to \$12 million. Due to the availability of unobligated prior-year funds, no new funding for the program was requested in FY 1999.

U.S. DEPARTMENT OF DEFENSE (DoD) - ARCTIC MILITARY ENVIRONMENTAL COOPERATION PROGRAM

In March 1995, DoD began discussions with the Norwegian and Russian Ministries of Defense on a joint Arctic Military Environmental Cooperation (AMEC) Program to address critical environmental issues related to these militaries' unique capabilities and activities in the Arctic region. In September 1996, U.S. Secretary of Defense Perry, Norwegian Minister of Defense Kosmo, and Russian Minister of Defense Rodionov signed a declaration launching a cooperative effort among these three military forces under the AMEC framework. The AMEC Program initiated support of joint activities to ensure safe handling and storage of radioactive materials, and proper disposal of hazardous toxic materials, and to exchange information on risk assessments and clean-up technologies and methods. All projects are focused on demonstrations of existing "off-the-shelf" technology. Program funding is provided by all three parties, with each country principally paying for its own participation. The U.S. Government's AMEC activities are part of an interagency effort involving the U.S. Environmental Protection Agency (EPA) and the Departments of Energy, State and Defense, with DoD serving as the lead agency for the U.S. side. The AMEC Program was included under the Expanded Threat Reduction Initiative (ETRI) in the Administration's FY 2000 budget request. Total U.S. Government funding for the AMEC program has been \$12.69 million: funding in FY 1997 was \$1.8 million, in FY 1998 Congress earmarked \$5 million in CTR funds to support AMEC, and in FY 1999 DoD budgeted \$5.89 million out of its operations and maintenance funds for the AMEC Program.

Seven trilaterally approved projects are being conducted under the AMEC Program: (1.1) the development of a prototype container and container storage pad for interim storage of spent nuclear fuel; (1.2) technology review and implementation for mobile treatment of liquid radioactive waste; (1.3) review and implementation for solid radioactive waste volume reduction; (1.4) review and implementation of technologies for the improvement of interim storage facilities for solid radioactive waste; (1.5) radiological health training and radiation monitoring technologies; (2.1) technologies for remediation of hazardous waste sites on military bases; and (2.2) review and implementation of clean ship technologies. With the exception of the hazardous-waste remediation project, the U.S. Government provides support to all AMEC projects.

In FY 1999, three projects were completed: the prototype cask, radiological health training and radiation monitoring technologies, and technologies for remediation of hazardous waste sites. Work on other projects continues:

Project 1.1: A prototype cask has been completed. It is anticipated that the CTR Program will initially purchase 12 casks. Site selection and design criteria for the storage pad are in progress.

Project 1.2: A joint experts' group conducted a needs assessment in November 1999 for a prototype mobile facility that will process liquid radioactive waste associated with nuclear submarines at remote sites.

Project 1.3: Phase I has been completed—a review summary has been published. Phase II—the implementation of a low-cost approach—is in progress.

Project 1.4: Sealant was applied to RTP AtomFlot storage facilities in Murmansk. U.S.-made containers were provided to Russia. The design of Russian-made concrete and metal storage containers is in progress.

Project 1.5: The initial transfer of equipment has been completed. Training for Russian officers at DOE and DOD was completed in November. Additional equipment transfers, including installation of the Norwegian "Picasso" data monitoring system at a test site, are planned.

Project 2.1: Although the project has been approved, Congressional restrictions specifically prohibiting environmental remediation are preventing further U.S. involvement in this project. The final report has been completed, and the project will be closed out as soon as Norway signs the contract.

Project 2.2: Phase I technology demonstrations have been completed. Project experts are now developing final recommendations for technologies to be implemented.

U.S. DEPARTMENT OF DEFENSE (DoD) – COUNTERPROLIFERATION PROGRAMS

Under separate legislative acts in FY 1995 and FY 1997, the U.S. Congress directed the Secretary of Defense to develop and implement, jointly with the U.S. Customs Service and the Federal Bureau of Investigation (FBI), two counterproliferation initiatives to provide training and technical assistance to NIS law enforcement, customs and border guard personnel. These two programs, the DoD/FBI Counterproliferation Program and the DoD/U.S. Customs Service Counterproliferation Program, are overseen by the National Security Council, coordinated with the U.S. Department of State, and implemented by the Office of the Secretary of Defense, the Defense Threat Reduction Agency (DTRA) and other agencies.

DoD/FBI Counterproliferation Program: The National Defense Authorization Act for FY 1995 (P.L. 103-337) authorized the Secretary of Defense and the Director of the FBI to develop a joint program to expand and improve U.S. Government efforts to deter, interdict and prevent the possible proliferation and acquisition of weapons of mass destruction (WMD) by organized crime groups and individuals in the NIS. The focus of the DoD/FBI Counterproliferation Program is on nuclear, chemical and biological weapons-related law enforcement training to prevent smuggling and trafficking. The program's work plan is divided into three elements: policy consultations and program development, training and assistance, and equipment procurement. Program plans and the first country assessments were initiated in 1996 to determine program requirements. Following training and reviews of existing assistance, some equipment may be provided to enable trained personnel to execute their responsibilities more efficiently and competently.

The DoD/FBI Program has three principal objectives: (1) to assist in the establishment of a professional cadre of law enforcement personnel within participating nations who are trained and equipped to prevent, deter, and investigate crimes related to proliferation and/or diversion of WMD and related materials; (2) to assist participating nations, upon their request, in developing appropriate laws, regulations, and enforcement mechanisms in accordance with international standards; and

(3) to build a solid and long-lasting bureaucratic framework reinforced by political commitment that would enable participating governments to address the proliferation problem.

The U.S. Congress authorized DoD to reprogram up to \$10 million in support of this joint initiative. In FY 1999, the DoD/FBI Counterproliferation Program expended approximately \$630,000. Estimated expenditures were \$300,000 each for Georgia and Moldova, \$10,000 for Turkmenistan, and \$20,000 for Uzbekistan. In FY 1999, the DoD/FBI Counterproliferation Program conducted the following activities:

- Two WMD basic training seminars were held at the International Law Enforcement Academy (ILEA) in Budapest, Hungary, for 38 Moldovan and 25 Georgian mid-to-senior law enforcement officials in December 1998 and September 1999, respectively. Attendees included parliamentarians, deputy ministers and other justice, customs, law enforcement, and national security officials. By the end of FY 1999, a total of 210 NIS governmental officials had attended these seminars.
- Policy consultations and assessments were conducted in Turkmenistan in July 1999.
- One follow-on legal workshop was held in Tashkent, Uzbekistan, in September 1999.

In FY 2000, the DoD/FBI Counterproliferation Program plans to sponsor an ILEA seminar for up to 40 officials from Turkmenistan and specialized follow-on law enforcement training and legal seminars throughout the NIS.

DOD/U.S. Customs Service Counterproliferation Program: The DoD/U.S. Customs Service (USCS) Counterproliferation Program was authorized in Section 1424 of the National Defense Authorization Act for FY 1997. Unlike the DoD/FBI Counterproliferation Program, the DoD/USCS Program focuses heavily on equipment in its initial implementation. A government-to-government counterproliferation agreement must be in place between the United States and a participating nation prior to the delivery of U.S. Government-funded equipment. These agreements serve as umbrella agreements for this program and future U.S. bilateral initiatives, establish proper government commitments to stop WMD proliferation and trafficking, and provide the necessary liability protections, privileges and immunities, and tax/customs exemptions for U.S. Government-funded equipment and personnel. Through 1999, agreements have been put in place with Azerbaijan (this program is exempt from Section 907 restrictions on assistance to the Government of Azerbaijan), Georgia, Moldova, Kazakhstan and Uzbekistan. Also, the U.S. Government is in various stages of negotiations on similar agreements with Armenia, Kyrgyzstan and Turkmenistan.

The DoD/USCS Counterproliferation Program has three objectives: (1) to assist in the establishment of a professional cadre of border enforcement personnel who are trained to detect, identify, interdict and investigate all aspects of smuggling and trafficking related to the proliferation and diversion of nuclear, biological and chemical weapons and related materials; (2) to assist in developing appropriate legislation, laws, regulations, and enforcement mechanisms; and (3) to help build a solid, long-lasting bureaucratic and political framework for counterproliferation in participating nations.

During FY 1999, approximately \$1.205 million was expended under the DoD/USCS Program. Of this amount, an estimated \$120,000 was for Armenia, \$160,000 for Azerbaijan, \$350,000 for Georgia, \$345,000 for Moldova, \$10,000 for Turkmenistan, and \$220,000 for Uzbekistan. Program highlights are provided below:

- Two WMD detection/interdiction training courses were held at the Hanford Nuclear Site in Washington State: one for 12 Armenian officials in June 1999, and one for 12 Azerbaijani and 11 Georgian officials in March 1999. This brings the total of NIS officials who have attended these courses to 65 since the program's inception.
- One high-technology and one low-technology customs, enforcement and border-security equipment module were delivered to Georgia for use in Tbilisi in December 1998 and the Port of Poti in April 1999. Training in the use of this equipment was presented to 38 customs and border guards officials in Tbilisi and 29 officials in Poti.
- A high-technology enforcement and border security equipment module was delivered to Uzbekistan for use in Tashkent in May 1999, and 35 customs and border guards personnel were trained in its use.
- A high-technology enforcement equipment module was delivered to Moldova in September 1999 and training was provided to 38 personnel.

- Policy visits were conducted to Azerbaijan, Moldova, Turkmenistan and Uzbekistan.

In FY 2000, the DoD/USCS Counterproliferation Program plans to conduct WMD detection/interdiction courses for Turkmenistan and Moldova, as well as a WMD seminar for Azerbaijan at ILEA. The Program will also provide tracking training, laboratory assessments and training, and follow-on counterproliferation interdiction and investigation training. Building on a very positive experience in Central and Eastern Europe, the DOD/USCS Counterproliferation Program plans to deploy WMD advisors to several countries in Central Asia and the Caucasus.

U.S. DEPARTMENT OF DEFENSE (DoD) – MILITARY-TECHNICAL COOPERATIVE EFFORTS

In the post-Cold War environment, DoD has actively pursued a number of opportunities to expand its military-technical cooperation with the NIS. Through 1999, cooperative efforts have taken the form of either contractual arrangements with foreign research centers or participation in the DoD-sponsored Foreign Comparative Testing Program. However, few government-to-government collaborative research and development programs have been concluded, and no cooperative armaments programs exist between the U.S. and NIS. This is due to several factors, including stringent controls by the NIS governments on areas of cooperation and the absence of relevant government-to-government agreements. Cooperative umbrella agreements with the NIS could provide the necessary legal basis for subsequent detailed agreements on specific projects involving data exchange, sponsored work, and joint research and development. Collaborative research and development may then lead to co-production programs, acquisition and cross-servicing agreements, and memoranda of understanding (MOUs) on logistical support, as exist between the United States and its NATO allies.

Russia: Two programs in our military-technical relationship with Russia continue to have the potential to become major, long-term cooperative efforts, while the decision as to whether to continue a third, the Russian-American Observational Satellite (RAMOS), is under review. The first of these, the K-36 ejection seat program, is a contender for placement (beginning in Lot 5) of F-22 production, the T-38 upgrade program, and the Joint Strike Fighter (JSF). This technology saves lives by providing pilots the capability of high-speed (700 knots) ejection from disabled aircraft with a high probability of injury-free landing. A small U.S. company that has been granted exclusive production and marketing rights for the K-36 by Russia has been acquired by a major U.S. defense contractor, thus assuring a vigorous marketing and production effort. The second program involves the MA-31 supersonic sea-skimming target drone. Once modified by an U.S. contractor, the MA-31 provides a realistic training device for the U.S. Navy Aegis ship defense system. Other programs with a potential for cooperation include Shared Early Warning, the Advanced Plasma Experiment (APEX), the Automatic Ejection Seat Program (allows safe instantaneous ejection in unrecoverable loss of aircraft control), the Express T-180 Thruster, the Theater Missile Defense Exercise Program, and S&T Research. Although not counted fully as assistance, the dollar value of U.S.-Russian Military-Technical Cooperative activities has been increasing, with \$310.7 million expended in FY 1998, \$401 million in FY 1999, and \$426.5 million for FY 2000. A formal DoD review of contracts and contracting practices with Russia was completed in November 1998. The study indicates that despite economic problems in Russia, there is abundant good will and a cooperative attitude on the part of participants in both countries to pursue military-technical cooperation based on mutual benefit.

Ukraine: The Ukrainian Government has continued to show interest in Military-Technical Cooperative programs, and it is expected to sign a Master Information Exchange Agreement (MIEA) with the U.S. Government in spring 2000. Negotiations on this agreement and other discussions stimulated by the U.S.-Ukraine Binational Commission have produced a number of cooperative opportunities for the two countries to pursue. This is particularly true if the MIEA is signed as anticipated. For example, cooperative efforts in welding technology, solid oxide fuel cells, and optical data storage devices are just a few of the potential topics for information exchanges awaiting in-depth review following the signing of the MIEA. There are also projects from other sectors under way now that may lead to direct MoD-DoD cooperation in 2000, such as the successful Sea Launch Program that uses the Zenit launch vehicle of the Yuzhnoye Design Bureau, produced at the YuzhMash plant to launch communications satellites from the equator. There are also opportunities for information exchange annexes in the promising area of interoperability.

U.S. DEPARTMENT OF DEFENSE AND U.S. DEPARTMENT OF STATE - WARSAW INITIATIVE / PARTNERSHIP FOR PEACE

During a July 1994 visit to Warsaw, President Clinton announced that he would request \$100 million from the U.S. Congress to “help America’s new democratic partners work with us to advance the Partnership for Peace’s goals.” The U.S. Government’s Warsaw Initiative is intended to jump-start Partnership for Peace (PFP) participation with an infusion of readily available funds. The Departments of Defense and State provide assistance under the Warsaw Initiative to facilitate

partner-country participation in PFP exercises, conferences, seminars and other events and enable partners to procure equipment and training to enhance the interoperability of their armed forces with those of NATO.

U.S. Department of Defense (DoD) - Warsaw Initiative (WI)

These programs seek to address near-term problems which limit the ability of partners to engage in PFP activities; promote interoperability with NATO; increase the level of participation in PFP exercises; and support efforts to deepen defense and military cooperation between the U.S. and NATO and their PFP partners. The funds used for the WI are DoD-budgeted operations and maintenance (O&M) funds. The Under Secretary of Defense for Policy and the Office of the Assistant Secretary of Defense (Strategy and Threat Reduction) are responsible for policy oversight of the Warsaw Initiative program for the NIS. The Defense Security Cooperation Agency administers Warsaw Initiative funds.

- **Support for Exercises and Related Activities:** DoD WI funds partner countries' participation costs (travel, hotel, food and other consumables such as fuel and practice ammo) in PFP or "In the Spirit of PFP" exercises in which U.S. forces are also participating. Over 50 PFP or "In the Spirit of PFP" exercises are conducted each year, including peacekeeping, humanitarian assistance deliveries, command post exercises, and field training exercises. Participation by NIS countries is important in furthering their interoperability with NATO.
- **Interoperability Programs:** DoD funds also pay for a range of DoD interoperability programs, which are generally initiated by the Office of the Secretary of Defense and usually operate at the Ministry of Defense level. FY 1999 programs included defense planning exchanges (DPE), defense planning and management exchanges (DPME), defense resource management studies (DRMS), the Partnership for Peace Information Management System (PIMS), the Defense Resource Management Institute (DRMI) exchange program, National Defense University informational exchanges/seminars, Logistics Management Institute (LMI), Defense public affairs information exchange program, and others.
- **Conferences and Seminars:** Warsaw Initiative funds pay for partner participation at U.S.-sponsored PFP/NATO conferences, seminars (such as those held at the Marshall Center), expert visits, exchanges and other programs.

All PFP member-states are eligible to receive Warsaw Initiative assistance. Eligible NIS states include Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan. Section 907 of the FREEDOM Support Act prohibits certain types of U.S. Government assistance to the Government of Azerbaijan, which cannot qualify for WI assistance until it lifts its blockades against Armenia. However, WI assistance to Armenia is also quite limited. Most forms of U.S. assistance to the Government of Belarus, including WI, are currently suspended. Tajikistan is currently not a member of PFP.

Approximately \$41 million was appropriated to support the DoD Warsaw Initiative Program in FY 1999. Of this amount, \$6.7 million was budgeted to support NIS interoperability programs. Another \$7 million went to support U.S. European Command (EUCOM), U.S. Central Command (CENTCOM) and National Guard activities, as well as the installation of the Partnership Information Management System (PIMS) in the NIS. Although a number of new initiatives have been developed for FY 2000, program funding levels are expected to remain more or less constant from FY 1999 to FY 2000. In addition to the interoperability programs described above, the Office of the Secretary of Defense has also developed the following new programs for FY 2000: exchanges on peacekeeping training and doctrine, task forces on military education reform, seminars on creating an all-volunteer force; and legislative affairs exchanges.

U.S. Department of State - Warsaw Initiative (WI)

Under this program, the U.S. Department of State provides Foreign Military Financing (FMF) funds through the U.S. Department of Defense to PFP partner countries for the acquisition of U.S. defense articles and services. Eight NIS countries—Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Uzbekistan and Ukraine—received a total of \$12.8 million in FMF funding in FY 1997, \$20.45 million in FY 1998, and \$18.9 million in FY 1999, for a total of \$52.15 million. Despite initial problems in learning how best to take advantage of the FMF Program, the NIS countries are beginning to capitalize on their FMF funding, using it to implement their PFP programs. In 1997, FMF funds were used to conduct communications equipment surveys in eight countries—Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan—with the goal of enhancing basic communications capabilities. In FY 1999, FMF funds were used to purchase tactical radio communications systems, tactical vehicles, English-language training equipment and publications, uniforms, boots, basic individual equipment, medical equipment, night-vision devices, computers, search and

rescue equipment, and specialized training, including medical, English-language and non-commissioned officer (NCO) courses.

U.S. DEPARTMENT OF STATE - INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET)

The State Department's IMET Program is designed to foster greater respect for and understanding of the principle of civilian control of the military, to contribute to responsible defense resource management, and to improve military justice systems and procedures in accordance with internationally recognized human rights. The IMET Program, which is administered through DoD, complements other PFP activities by providing a wide range of specialized training in the United States for military officials and select civilian officials. One of the most important elements of the NIS component of IMET is English-language training for military officers. In FY 1999, the Department of State provided \$4.21 million in IMET funding for the NIS, for a cumulative total of \$21.13 million since FY 1997. (Please see individual country assessments in Part II of this report.)

U.S. DEPARTMENT OF STATE - SCIENCE CENTERS

The Science Centers Program is implemented by two intergovernmental organizations that were established under international agreements signed in the early 1990s: the International Science and Technology Center (ISTC) in Moscow, established by agreement in November 1992, and the Science and Technology Center in Ukraine (STCU) in Kiev, established by agreement in October 1993. The primary objective of the Science Centers Program is to prevent the spread of weapons-of-mass-destruction and delivery-system technologies by providing opportunities to former Soviet weapons scientists and engineers to redirect their weapons expertise to peaceful activities. Since 1994, the ISTC and STCU have funded over 830 projects involving more than 26,000 scientists. The United States cooperates with Canada, the European Union, Japan, the Republic of Korea, and Norway in providing financial support for the ISTC and STCU, which operate in most of the NIS countries. The Science Centers and their activities also receive substantial in-kind contributions from Russia, Ukraine and the other participating NIS states (Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan and Uzbekistan) in the form of local office and personnel support, tax and customs exemptions, and infrastructure support for projects at participating research organizations.

During FY 1999, the effects of the August 1998 Russian financial crisis and the resulting increased threat of weapons-expertise proliferation was reflected in the increasing numbers of proposals for institutional support that were received by the Science Centers, as well as in the increased number of projects approved for funding. In FY 1999, nearly 1,000 project proposals were provided by the ISTC and STCU to participating donor countries for their review and funding decisions. However, due to limited resources, over \$70 million in proposals went unfunded by the U.S. Government, despite having passed a rigorous U.S. technical and policy review and having met the highest standards of technical and scientific excellence and, most importantly, nonproliferation impact. In FY 1999, the U.S. Government responded to the urgent need for expanded nonproliferation efforts in the NIS by designing the Expanded Threat Reduction Initiative (ETRI).

The Moscow-based ISTC supports project work and other activity at scientific institutes in Russia, Armenia, Belarus, Georgia, Kazakhstan and Kyrgyzstan. The Kiev-based STCU operates in Ukraine, Georgia and Uzbekistan, with Moldova expected to join in FY 2000. In FY 1999, a total of \$22 million in FREEDOM Support Act (FSA) funds was obligated to the Science Centers by the U.S. Department of State.

The original FY 1999 Science Centers program plan required substantial revision, due to congressional restrictions on the use of FSA funds for assistance to the Government of Russia because of that country's continued cooperation with Iran. A number of projects in Russia were funded pursuant to legislative guidance that exempted certain activities in support of university, environmental and hospital partnerships. A total of \$5.5 million in funds originally allocated for Russia was reallocated to Kazakhstan, Ukraine, Uzbekistan and regional activities. A breakdown by country is provided below:

COUNTRY	INITIAL FY 1999 PROGRAM PLAN	REVISED FY 1999 PROGRAM PLAN	ADDITIONAL FY 1999 FUNDS	FY 1999 TOTAL
Russia	\$14.0 m	\$4.5 m projects \$4.0 m partnerships		\$8.5 m
Ukraine	\$1.0 m	\$4.0 m	\$1.0 m	\$5.0 m
Kazakhstan	\$1.5 m	\$2.5 m		\$2.5 m
Belarus	-	-		
Armenia	\$1.0 m	\$1.0 m		\$1.0 m

Georgia	\$0.75 m	\$0.75 m		\$0.75 m
Uzbekistan	\$0.75 m	\$1.25 m		\$1.25 m
Kyrgyzstan	\$0.5 m	\$0.5 m		\$0.5 m
Regional	\$1.5 m	\$2.5 m		\$2.5 m
TOTAL	\$21.0 m	\$21.0 m	\$1.0 m	\$22.0 m

Russia: Although \$14 million in FY 1999 funding had originally been allocated for ISTC projects in Russia, the U.S. Government's contribution was scaled back to \$8.5 million due to Congressional restrictions. Of this revised amount, \$4.0 million was specifically directed towards ISTC projects involving U.S. university, environmental and hospital partnerships with Russian counterparts, in accordance with congressional guidance in support of such efforts. The remaining \$4.5 million funded other projects under the competitive program. U.S. Government-funded projects covered the technical areas of biotechnology and life sciences, chemistry, environment, fusion, nuclear reactor technologies, materials, instrumentation, physics, other basic sciences, and space, aircraft and surface transportation. Projects in Russia's closed nuclear cities were specifically selected for U.S. funding on account of their potential to support activities under the U.S. Energy Department's Nuclear Cities Initiative (NCI). The ISTC is also one of the core supporters of the redirection of former Soviet biological weapons experts and facilities. The Science Centers Program was responsible for expanding the U.S. presence in key facilities and served as a funding mechanism for activities implemented by the U.S. Departments of Defense (DoD), Agriculture (USDA), and Health and Human Services (HHS), and the U.S. Environmental Protection Agency (EPA).

Ukraine: The \$1 million in FY 1999 funds initially available for STCU projects in Ukraine supported STCU grants to institutes throughout Ukraine in the fields of material science, plasma physics, alternative energy and environmental protection. The \$1 million in additional FSA funding provided in late FY 1999 will be targeted towards projects at institutes in Kharkiv, in support of the U.S. Government's Kharkiv Initiative, which recognizes the financial sacrifice made by that region when in 1998 Ukraine cancelled significant contracts with Iran involving the Bushehr nuclear power plant. The remaining \$3 million in FY 1999 funding was reallocated from funds originally designated for Russia and has been obligated to the STCU for cooperative research projects between the National Aeronautics and Space Administration (NASA) and the National Space Agency of Ukraine, in accordance with the September 1999 bilateral U.S.-Ukraine Memorandum of Understanding on Space Cooperation. Project design is currently under way for this major new STCU effort, which will provide a basis for future Ukrainian participation in International Space Station research activities. For a third year, the U.S. National Cancer Institute (NCI) continued to use the STCU Partner Program for financial and administrative management of its research program focusing on the long-term health effects of the Chernobyl accident. As a funding mechanism, the STCU provides NCI and other partner organizations with guarantees of tax and customs exemptions, as well as audit and monitoring rights and access.

Armenia: In addition to funding about \$1 million in research projects in Armenia in FY 1999 (mostly in the technology areas of electronics and materials), the U.S. Government funded a special training effort directed by the American University of Armenia (AUA) to train computer specialists from the former Soviet weapons industry in programming and other areas that will make them employable in Armenia's burgeoning software development industry. The initial pilot course will provide training for 25 individuals, and can potentially be expanded within Armenia as well as regionally.

Belarus: Given the U.S. Government's policy of selective engagement with the Government of Belarus due to its poor record on human rights, the State Department's Science Centers Program maintains a policy of not providing any funds for project work in Belarus (with the possible exception of humanitarian projects related to effects of the Chernobyl disaster). In 1999, the U.S. National Cancer Institute, building on its success in working through the STCU in Ukraine, began using the ISTC program for financial and administrative management of its long-term Chernobyl health-effects research program in Belarus.

Georgia: In FY 1999, the U.S. Government launched a major effort to engage the Georgian scientific community in the development, approval and funding of Science Center projects. Particular attention was paid to the Institute of Physics in Tbilisi, in recognition of its participation in Operation Auburn Endeavor, which removed weapons-grade uranium from the institute's research reactor for safekeeping outside of Georgia. Two groups of scientists were brought to the United States to meet with potential collaborators at U.S. companies and laboratories. As a result, the U.S. Government funded almost \$1 million in ISTC projects in Georgia, committing unused prior-year funds as well as the FY 1999 allocation for Georgia. The Georgian scientific community is now fully engaged in the Science Centers program, through membership in both the ISTC and STCU and participation in projects in technical areas such as medical isotope production, specialized micro-circuit technology and nutritional science.

Kazakhstan: The U.S. Government funded only \$800,000 in Science Center projects in Kazakhstan during FY 1999. This low level of project funding resulted from a temporary suspension of all FSA-funded assistance to the Government of Kazakhstan during a portion of the fiscal year, which was lifted following the resolution of conventional arms transfers issues. The main areas of new project activity funded in Kazakhstan included biotechnology, environmental technologies, and radiation detection technologies.

Kyrgyzstan: In FY 1999, the U.S. Government funded over \$500,000 in ISTC projects in Kyrgyzstan. Because of that country's legacy of ecological damage from former Soviet military activities there, many of these projects address environmental issues. Groundwork was laid for opening an ISTC branch office in Bishkek in early FY 2000.

Uzbekistan: FY 1999 was the first full year of Uzbekistan's participation in the Science Centers Program, through the STCU in Kiev. The U.S. Government provided close to \$600,000 in project funds for activities at Uzbekistani institutes in technical areas such as advanced material science, new technologies to detect nuclear smuggling, agricultural science, photo-voltaic technology and solar energy. An additional \$500,000 in FY 1999 funds re-programmed from Russia, which were made available for Uzbekistan at the end of FY 1999, will be expended in FY 2000, with an emphasis on engaging former biological and chemical weapons experts.

Project Highlights

Regional Y2K Compliance at Nuclear Power Stations: During the last eight months of 1999, the ISTC and the STCU initiated, implemented and concluded a sizeable effort to ensure Y2K compliance at nuclear power stations in Russia and Ukraine. With a combined contribution of \$3 million from the United States, Canada, the European Union and Japan, the ISTC and STCU funded efforts by computer experts from the former Soviet weapons community to conduct comprehensive inventories and complete high-priority corrective actions at more than 15 nuclear power plants, as well as selected chemical and biological weapons facilities. The Science Centers and the participating countries established a special review system that permitted projects to be reviewed, approved, funded and implemented on an expedited basis. In an example of inter-agency and inter-program cooperation, the U.S. Government contribution included both \$800,000 in FY 1999 regional funds from the Science Centers Program and \$1 million in nuclear safety funds provided through the Department of Energy, which were expended through the STCU in Ukraine. DOE and U.S. National Laboratory technical expertise was also critical to the expedited U.S. review and implementation of the Science Center-funded Y2K efforts, which were completed under severe time constraints.

Partner Programs: In addition to the support provided by the U.S. and other member governments, both the ISTC and STCU operate partner programs that allow participation by private industry, foundations, universities and other international and non-governmental organizations that provide their own funds to support projects consistent with Science Center objectives. U.S. Government agencies can use this program to fund research and other programmatic activities through the ISTC and STCU, taking advantage of the Centers' tax and customs exemptions and audit/monitoring rights. This expanded participation enhances the ability of the Science Centers to achieve a key objective of providing former Soviet weapons scientists with commercial and other linkages with Western private and public-sector organizations. Partner contributions to Science Center activities have totaled more than \$18 million since 1996.

Training and Exchanges: Training and exchanges are a rapidly expanding area of Science Center activity that plays an important role in facilitating the long-term transition of weapons scientists to civilian activity. The U.S. Government has spearheaded the development of a variety of these programs:

- Both the ISTC and STCU implement and sponsor training programs in business management, protection of intellectual property rights (IPR), commercialization of project results and proposal development, to provide institute staff with core skills that will help market technologies developed under Science Center projects. FY 1999 training courses reached hundreds of individuals in cities across the NIS and were highly rated by the participants.
- The ISTC sponsored training in laboratory animal care and use for biotechnology institutes that conduct animal testing of new vaccines, drugs and other pharmaceuticals, so that practices at NIS laboratories will be consistent with Western standards. In 1999, this program was responsible for the first-ever formation of animal care and use committees at Russian institutes. The ISTC also sponsored training in good manufacturing practices for biotechnology production at key Russian biological institutes.

- The Science Centers' exchange programs expanded significantly in FY 1999. Over 150 NIS scientists were brought to the United States and other Western countries, for purposes ranging from the development of new project ideas and proposals to the presentation of project results at international meetings and conferences. The State Department's Science Centers Program also funded visits by U.S. technical experts to project sites in the NIS.
- In addition, the Science Centers have provided substantial professional development training for their Russian and Ukrainian staff at ISTC and STCU headquarters in Moscow and Kiev, respectively. The objective of this training is to ensure that local Science Center staff meet demanding professional standards and are have the appropriate background to assist the scientists and engineers that participate in Science Center projects.

Audits and Oversight: In FY 1999, the U.S. Government initiated audits on 30 U.S.-funded Science Center projects. The Defense Contract Audit Agency (DCAA) conducted the audits on a contract basis for the U.S. Department of State. While the audit results were overwhelmingly positive, the audits also revealed a need for the Science Centers and U.S. auditors to adjust their systems of inquiry and reporting to take into account the uniqueness of Science Center project activities. For example, DCAA's audits reported timesheet inconsistencies on some ISTC projects, which were actually the result of Russian scientists voluntarily contributing additional time to projects in excess of the time they had reported for compensation purposes. As a result, Science Center project timesheets will be adjusted so that these extra work hours are clearly reflected as a contribution to the project activities by participating NIS scientists. Other improvements under way include greater participation by U.S. technical experts in accompanying DCAA auditors, and a broadening of the assessment basis beyond financial considerations to include the evaluation of scientific work and the correlation between technical output and labor and funds expended.

U.S. DEPARTMENT OF STATE - REDIRECTION OF BIOTECHNICAL SCIENTISTS

In FY 1999, the U.S. Government implemented a State Department-led pilot project aimed at increasing transparency in former Soviet biological weapons (BW) facilities and redirecting their scientists to civilian commercial, agricultural and public health activities. The August 1998 Russian financial crisis increased the need to address potential proliferation threats from these facilities and their remaining scientists and technical experts. All activity under this project is subject to strict oversight by an interagency working group. Facilities and government officials in countries where the U.S. Government is pursuing redirection activities are explicitly informed that any cooperation with countries of proliferation concern or terrorist entities, or any behavior inconsistent with the Biological and Toxin Weapons Convention (BWC), would have an immediate and negative impact on U.S. Government assistance. The majority of U.S. Government-funded redirection activities are taking place under the auspices of the International Science and Technology Center (ISTC), which has access to facilities, provides tax-exempt assistance directly to scientists, and can engage multilateral funding. Agencies involved in these efforts include the U.S. Departments of State, Energy (DOE), Defense (DoD), Agriculture (USDA) and Health and Human Services (DHHS).

USDA – Agricultural Research Service (ARS) Collaborative Research Program

The USDA/ARS Collaborative Research Program was initiated in late 1998 with \$550,000 in FREEDOM Support Act funds, and received an additional \$2 million in FY 1999 funds. The program draws on USDA's capabilities in animal and plant pathogens and its network of ARS laboratories and related facilities to establish agricultural research collaboration with Russian institutes. A key feature of the ARS program is substantial contact between ARS and Russian scientists to optimize collaboration at the scientist level and share results between the U.S. and Russian laboratories. The program also supports short, medium and long-term exchange visits of Russian scientists with their ARS counterparts in the United States and exchange visits of ARS scientists to Russia. The ARS Collaborative Research program is designed to advance agricultural science in the NIS by establishing new expertise and promoting basic and applied research; support the transition of the NIS countries to a market economy by supporting advances in agricultural technology, strengthening scientific communities and integrating NIS scientists into the international scientific community; and enhancing the effectiveness and productivity of ARS research programs. Most importantly, the Collaborative Research Program helps reduce the risk of proliferation of weapons-of-mass-destruction and BW expertise, increases transparency at former Soviet BW research sites, and supports redirection of former Soviet BW scientists to peaceful, agricultural research, thus reducing the threat of biological weapons development and usage.

FY 1999 Program Highlights: FY 1999 was the first full year of activities under this new program, and significant progress was made in a range of areas:

- ARS teams made two visits to Russia to identify candidate scientists and project areas for potential partnerships. In September 1999, the ARS Administrator visited six institutes in Russia, providing each of them with a portfolio of ARS research ideas and a computer program that enables access to the ARS National Agricultural Library's electronic catalog. A subsequent trip in October 1999 engaged representatives from 13 institutes. These ARS visits to Russian institutes have proven very fruitful and have helped build trust on the Russian side.
- In FY 1999, USDA hosted 31 data exchange visits to ARS facilities in the United States by research scientists from 10 different institutes in Russia, Kazakhstan and Uzbekistan. USDA also hosted four visits to the United States by Russian researchers who worked with USDA scientists to develop collaborative project proposals.
- ARS gained a substantial amount of credibility with its Russian counterparts, who submitted 140 proposals involving 11 Russian institutes. By providing a portfolio of research ideas, ARS enhanced the quality of project proposals, many of which met the criteria of enhancing ARS's national research agenda and warranted funding approval.
- Four proposed collaborative projects with Russian institutes were approved for funding by the U.S. interagency working group, pending Russian Government approval. The four projects, whose total cost is estimated at \$1.5 million, are all in the area of animal health research. The International Science and Technology Center (ISTC) is trying to expedite the approval of these projects, which are being reviewed by the Russian Ministry of Science.
- Kazakhstani scientists submitted 13 project proposals in FY 1999. One project with a Kazakhstani institute was approved by U.S. interagency working group. ARS staff will meet with the participating Kazakhstani scientists in early 2000 to further develop the project and its work plan. ARS expects to receive many more proposals from Kazakhstani institutes in FY 2000, following a visit by ARS animal and plant health experts to institutes in Almaty in December 1999.

Plans for FY 2000: The ARS Collaborative Research Program's plans for FY 2000 include the following activities:

- site visits to Stepnogorsk, Kazakhstan, in May 2000;
- work with Russian institutes that received computer software enabling them to access the ARS National Agricultural Library's electronic catalog, to ensure they have adequate hardware to utilize this software;
- pending Russian Government concurrence, support for two collaborative research projects at the State Research Center for Virology and Biotechnology (VECTOR) at Koltsovo and two projects at the State Research Center for Applied Microbiology in Obolensk;
- new projects with Russian institutes and increased travel by ARS primary investigators to sites of ongoing research to work with Russian counterparts;
- the travel of Kazakhstani scientists to the United States to collaborate on the development of a work plan for the one project already approved by the U.S. interagency process; and
- the development of additional proposals for collaboration with institutes in Russia and Kazakhstan.

U.S. Department of Health and Human Services (HHS) – Biotechnology Engagement Program (BTEP)

The BTEP Program was initiated in March 1999 with \$4.8 million in FREEDOM Support Act funding to help former Soviet biological weapons scientists make the transition to addressing domestic public health concerns and to decrease the risk of proliferation of weapons-of-mass-destruction expertise. In coordination with the U.S. Departments of State and Defense, projects currently in development are focused on infectious diseases and disease-control technologies involving research and development at both open and closed institutions in the NIS. HHS is a partner institution of the International Science and Technology Center (ISTC) and uses this mechanism to fund specific projects and gain the approval of NIS governments for specific projects.

The BTEP Program awards grants to individual projects that have both U.S. and NIS components. The U.S. component involves U.S. Government scientists and other health professionals/administrators, who typically represent HHS laboratories, centers and institutes. Their role of U.S. partners is to oversee the project activity, assess outcomes, and provide pro-

professional advice training as needed. Other U.S. scientists may also be invited to participate. However, the majority of program funding supports NIS-based activities involving former BW scientists as principal investigators or project officers. Depending on the scope and nature of a given project, additional scientists and staff at the Russian Ministry of Health and Academy of Medical Sciences may also be involved, as may NIS start-up companies. The BTEP Program seeks to address high-priority public health issues and integrate the work of former weapons scientists into the mainstream scientific work being conducted by HHS's counterpart agencies in the NIS.

FY 1999 Program Highlights

In FY 1999, HHS dealt effectively with the organizational challenges of making BTEP fully operational.

- An interagency BTEP Advisory Group chaired by the Deputy Assistant Secretary for International and Refugee Health was established by the Assistant Secretary for Health and Surgeon General.
- HHS became a formal partner of the International Science and Technology Center (ISTC) and began using the ISTC as a funding mechanism to pay NIS scientists on a tax-exempt basis.
- HHS established program management procedures and a process for reviewing and approving proposals, tracking and managing projects, and tracking expenditures at the project level.
- BTEP representatives participated in the organization of the first ISTC expert workshop on international public health priorities, held in Brussels at the end of May 1999. This workshop brought together public health authorities from both open and closed NIS institutions, Ministries of Health, the World Health Organization (WHO), and European, Japanese, and U.S. representatives. The workshop focused on public health priorities in the areas of tuberculosis, HIV/AIDS and hepatitis. For example, recommendations were developed for anti-tuberculosis projects addressing epidemiology, treatment, diagnostics and prevention.
- With the goal of developing joint proposals for BTEP funding, a seven-member team of U.S. tuberculosis research experts followed up the Brussels workshop with visits to the Central Tuberculosis Institute in Moscow, the closed facility at Obolensk (SRCAM), and the VECTOR (Koltsovo) facility near Novosibirsk.
- The BTEP Executive Secretary and staff from the U.S. Food and Drug Administration (FDA) and the National Institutes of Health (NIH/NIAID) participated in a workshop held at the Russian institute VECTOR in early September 1999 that provided significant additional opportunities for topics and investigators for BTEP-funded projects.
- Specific project proposals are being developed based on the contacts and exploratory visits of NIS scientists to the United States sponsored by the U.S. Civilian Research and Development Foundation (CRDF) and ISTC. As competitive proposals are completed, the BTEP Advisory Group and the ISTC will send them out for merit-based review. HHS will also work with the appropriate health authorities, such as the Russian Ministry of Health, to coordinate these projects.

Country Highlights

Russia: The BTEP Program is primarily focused on Russia. Based on the initial six months of experience in 1999, HHS believes that a solid research and development program in the high-priority public health area of tuberculosis (and particularly multi-drug-resistant tuberculosis) can be developed involving a dozen or more specific BTEP/ISTC proposals. Additional project proposals on hepatitis are nearing completion. Roughly \$50,000 has been spent or committed to cover exploratory project development costs, travel and initial match-making in FY 1999. HHS will seek greater coordination with the Russian Ministries of Health and Emergency Situations in joint work on preventing, preparing for and responding to a bio-terrorism incident. Workshops and training are also proposed. The total proposed budget for FY 1999 funds for Russian institutions (combined ISTC and DHHS expenses) is just under \$3 million.

Other NIS Countries: HHS expects to develop several infectious disease programs for Kazakhstan and the other NIS countries. BTEP has allocated \$1.88 million for these activities.

U.S. CIVILIAN RESEARCH AND DEVELOPMENT FOUNDATION (CRDF)

The CRDF funds U.S.-NIS collaboration on civilian basic and applied research conducted in the NIS in order to redirect efforts of former weapons scientists toward peaceful purposes and promote the development of market economies in the NIS. The CRDF is a non-governmental, non-profit foundation that was established in August 1995 by the National Science Foundation with an initial \$5 million grant under the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program, matched by a \$5 million grant from the Soros Foundation. CRDF programs have also attracted funds from the NIS (\$2.4 million) and American industry (approximately \$1.14 million), and its accomplishments are regularly highlighted during meetings of the U.S.-Russian Joint Commission on Economic and Technical Cooperation. In FY 1996, funding for much of the CRDF's activities shifted to the U.S. Department of State under the FREEDOM Support Act (FSA). From FY 1995 to FY 1999, the CRDF received more than \$27 million for assistance activities, of which FSA funding has accounted for \$8.23 million. The CRDF received approximately \$9.5 million in funding in FY 1999, including \$5.68 million in FSA funding, \$3.0 million from the National Institutes of Health (NIH) and some \$800,000 in contracts from the U.S. Departments of Defense, Commerce and State, and the National Science Foundation (NSF).

Funds received by the CRDF are committed to its Cooperative Research Grants competition, its "Next Steps to the Market" Program, its Travel Grant Program, and its contract support programs. Next Steps applicants—American industry and NIS scientists—compete for funds to support the next steps in taking their particular technology to the marketplace. These projects are pre-competitive and consistent with the CRDF's overall objectives, and should help reduce the risk associated with the early stages of international collaboration. In addition, CRDF has supported over 50 industry-oriented visits to the United States by NIS researchers seeking U.S. partners. These exchanges are expected to lead to Next Steps proposals. The CRDF has made a total of 348 awards for research collaboration, involving more than 2,800 NIS and 700 American scientists, engineers and students. Of the NIS researchers, 440 were weapons or former-weapons scientists, 180 had knowledge and experience with weapons of mass destruction, and 260 had worked on other defense technologies. In each case, the researchers in question, including those at the nuclear facilities at Sarov and Snezhinsk, agreed to perform only civilian work while receiving support from the CRDF.

Country Highlights

Armenia: In FY 1999, the CRDF continued to provide assistance to develop an indigenous capacity in Armenia for funding science through merit-based competitions with support from USAID. CRDF continued to provide training in accounting and auditing procedures and material support to the Armenian National Foundation for Science and Technology (NFSAT). NFSAT refined its organizational skills by handling logistics for three seminars held in Armenia: two proposal development seminars for the American Association for the Advancement of Science (AAAS) and a CRDF training program in technology development and marketing sponsored by the U.S. Department of Commerce. In an effort to assist NFSAT in broadening its funding base, CRDF sponsored a visit to the United States by NFSAT's chairman with the goal of showcasing NFSAT's activities and capabilities among the Armenian-American diaspora and representatives of interested foundations and government agencies.

Azerbaijan: In late May 1999, the CRDF concluded an agreement with the Academy of Sciences of Azerbaijan to cooperate on science and technology and allow Azerbaijan's scientists and engineers to participate in CRDF programs. The agreement addresses tax exemptions for CRDF programs, access for audit purposes, recipient country cost-sharing and other issues. Activities with Azerbaijan will require 50 percent of Azerbaijani participants to be former weapons scientists. Three proposals were submitted by Azeri scientists in fall 1999 for the current cycle of the CRDF's Cooperative Research Grants Program. CRDF will announce its project selections in May 2000.

Kazakhstan: The CRDF is supporting three Kazakhstani research projects that involve scientists from the former biological weapons (BW) facility at Stepnogorsk, and equipped a Regional Experimental Research Center at the Physical Technical Institute near Almaty with important analytical instrumentation for use in industry and standards-related research and development. The CRDF purchased equipment for the Center and arranged for its tax- and customs-free entry into the country. From late August to mid-October 1999, the CRDF sponsored the participation of a representative of the Ministry of Science and Higher Education in an intensive National Science Foundation (NSF) management training program to familiarize her with the U.S. system of funding scientific research.

Kyrgyzstan: The CRDF received an additional \$100,000 in FREEDOM Support Act funding in FY 1999 to provide second-year funding for the International Geodynamics Research Center (IGRC), a new facility that promotes international collaboration and field work in geodynamics in the Tien Shan region. The NSF also agreed to provide an additional

\$40,000 directly to the Center. Besides promoting international scientific collaboration in the geosciences, the Center has an important non-proliferation role, as its network of seismic stations has the ability to record nuclear explosions anywhere in Asia.

Moldova: The CRDF used \$575,000 to help establish in a new organization for the administration of science and technology resources in Moldova based on principles of merit-based selection, and to more effectively engage Moldovan scientists with weapons experience in civilian research and development. The CRDF program plan calls for proposal development and commercialization seminars, as well as small, focused U.S.-Moldovan project development workshops in high-priority scientific areas identified by the Moldovan Government. Based on its experience in Armenia, CRDF will provide appropriate staff training and material support for the new Moldovan organization. CRDF also will conduct a joint research competition with the new Moldovan organization with the primary objective of engaging former defense scientists in civilian projects. CRDF staff visited Chisinau to discuss joint program implementation and to negotiate an enabling agreement.

Russia: In FY 1999, the CRDF was asked by the NSF and the Russian Foundation for Basic Researchers (RFBR) to administer a special program enabling young Russian researchers to participate in existing CRDF cooperative research projects. An NSF award of approximately \$500,000 will cover the U.S. costs of this activity, while the RFBR will cover Russian costs. The CRDF has seven projects under way in Russia under its Next Steps to Market Program, three of which utilize Russian business incubators to help create business plans. The CRDF has provided almost \$320,000 to this effort, while private-sector contributions total over \$530,000. An American company is involved in each of these projects. Under its "Closed Cities" Program, CRDF organized a visit to the United States by a Russian delegation including representatives of Arzamas-16, MinAtom and GazProm that met with a potential U.S. partner, the Fuel Cell Corporation of America, to assess the U.S. market for its proposed jointly produced U.S.-Russian stationary fuel cells. The delegation also briefed potential contributors on plans and progress and received informed opinions on possibilities and strategies for funding. The CRDF is currently funding a feasibility study by Arzamas-16 researchers that is assessing the potential Russian market for the proposed jointly produced fuel cells.

Ukraine: In FY 1998, the CRDF initiated a Small Business Research and Development (R&D) Program in Ukraine, under which 15 Ukrainian researchers came to the United States to work with U.S. commercial partners on one-year project proposals, which were prepared for submission at the end of 1998. The CRDF funded 10 of these proposals in March 1999. The CRDF also received \$99,000 out of an eventual \$160,000 from NSF to support the travel of young investigators involved in CRDF research projects and to support conferences and workshops in Ukraine. The latter will bring together U.S. and Ukrainian researchers to discuss potential collaboration and the preparation of proposals to the CRDF or other funding agencies.

Uzbekistan: In May 1999, the CRDF conducted a second workshop on technology commercialization, as part of a U.S. Commerce Department-funded program (see below). The CRDF also reached an agreement with the Uzbekistan's State Committee of Science and Technology to carry out a jointly funded program of travel and research grant support for collaboration between former biological weapons (BW) researchers in Uzbekistan and new U.S. partners. Four former BW researchers from Uzbekistan traveled to the U.S. in September 1999 to meet with prospective partners. Resulting proposals for collaborative research and development were submitted in late 1999.

NIS Regional: With funding from the U.S. Department of Commerce, the CRDF held three workshops for some 40 NIS participants on the commercialization of research and development in FY 1999. The workshops were held in Kiev (for Ukraine and Moldova), Yerevan (for the Caucasus) and Tashkent (for Central Asia). At the conclusion of their training, the participants traveled to the United States to meet with U.S. companies and to attend trade shows and conferences to discuss their technologies.

U.S. DEPARTMENT OF STATE – EXPORT CONTROL / BORDER SECURITY ASSISTANCE

Helping the NIS countries develop more effective export control systems and capabilities is a critical component of U.S. Government efforts to prevent, deter and detect the potential proliferation of weapons of mass destruction (WMD) and associated materials. The objective of U.S. Government export control assistance is to help build NIS export control institutions, infrastructure and legislation to help prevent weapons proliferation. With initial funding from the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program, the Departments of Commerce, Energy, State and Treasury (Customs Service) provided approximately \$39 million in export control assistance to Russia, Ukraine, Kazakhstan and Belarus through FY 1995. In FY 1996, funding responsibility for export control assistance shifted to the Department of State under the Nonproliferation and Disarmament Fund (NDF). In FY 1998, State Department funding for export control

assistance became a separate budget line-item under the Nonproliferation, Anti-Terrorism, Demining and Related Activities (NADR) appropriation. The Department of State provides policy direction and coordinates all agencies providing export control and border security assistance, capitalizing in particular on the unique capabilities of the U.S. Coast Guard to support export control and border security assistance programs.

Nonproliferation and Disarmament Fund (NDF)

The State Department's Nonproliferation and Disarmament Fund (NDF) provides resources to support bilateral and multilateral efforts to prevent, deter or detect potential proliferation of WMD, WMD components and delivery systems pursuant to Section 504 of the FREEDOM Support Act of 1992. In FY 1999, the NDF funded six projects totaling \$9.5 million for Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan. The following programs were approved for NDF funding in FY 1999:

- Implementation of a nuclear-detection installation program at key border posts in Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Ukraine and Uzbekistan to enhance their ability to detect illicit smuggling and transport of nuclear materials at border crossings (\$950,000)
- Expansion of the Tracker automated licensing system in Armenia and Azerbaijan. The Tracker system permits countries to track exports of proliferation concern and to consult electronically with other government ministries and with foreign governments. It provides a basis for the eventual establishment of a global network for sharing information about items of proliferation concern. (\$1.92 million)
- Continued development of a prototype Tracker automated licensing system for use in Kazakhstan. The Tracker system was approved for use in Kazakhstan in FY 1998. (\$399,000)
- Training on implementation of the Tracker system in Russia, focusing on technicians at the Russian Center for Export Control (CEC) and the Export Control Laboratory of the Russian Ministry for Atomic Energy (MinAtom). (\$95,000)
- Surveys of nine Russian border posts at key transit points and the provision of nuclear material detection equipment to combat nuclear smuggling under the U.S. Energy Department's Second Line of Defense Program. (\$3.00 million)
- The designing and testing of low-enriched uranium (LEU) fuel elements as an alternative to highly enriched uranium (HEU) fuel to support the transition of Russian plutonium production reactors at Tomsk and Krasnoyarsk to alternative fuel in conjunction with the CTR Core Conversion Program.

Nonproliferation, Anti-Terrorism, Demining and Related Activities (NADR)

The State Department's Bureau of Nonproliferation uses NADR funding to provide export control assistance to the NIS. In FY 1999, the Bureau supported export control assistance with \$5 million from the NADR account and \$4 million in reprogrammed Economic Support Funds (ESF). Increased funding enabled the State Department to expand both the geographic coverage and the scope of its export control assistance, which is designed to help source countries and countries along potential WMD smuggling routes to countries of proliferation concern to develop effective export control regimes. In FY 1999, State Department export control programs were focused on the following objectives: (1) establishing the necessary legal and regulatory basis for effective export controls; (2) improving licensing procedures and practices; (3) coordinating, training and equipping export enforcement agencies, including customs agents and border enforcement authorities; (4) developing and installing automated information systems for licensing and enforcement; and (5) fostering effective interaction between government and industry on export controls.

In FY 1999, the Department of State obligated over \$5.54 million for the following programs and projects in the NIS:

- the development of internal compliance programs and associated training (\$2.13 million);
- meetings, training, workshops, symposiums, forums and seminars (\$2.02 million);
- licensing procedures and practices workshops (\$430,000);
- equipment purchases and training, including the Tracker automated export licensing system (\$400,000);
- training in the use of enforcement equipment (\$150,000);
- legal and regulatory training (\$175,000);
- executive exchanges (\$60,000); and
- the shipment of x-ray vans (\$40,500).

Many of these activities were carried out through multinational or regional efforts. State Department export control programs facilitated the following country-specific achievements in FY 1999:

Armenia: U.S. Government export control assistance helped Armenia establish a high-level interagency export-control coordinating commission, reflecting Armenia's increasing interest and commitment to export controls. In FY 1999, Armenian officials participated in the Central Asia and Caucasus Regional Forum on Export Controls. Through this and other regional programs, Armenian officials have established working relations with officials from Georgia and Azerbaijan, a promising example of increased cooperation among the Caucasus countries.

Azerbaijan: Azerbaijan continues to be a leading country in the interception of transit shipments of concern. In FY 1999, the State Department and the U.S. Coast Guard conducted a maritime border enforcement assessment in Azerbaijan and began an integrated interagency maritime nonproliferation support program. With U.S. assistance, the Government of Azerbaijan prepared a draft export control law for submission to parliament.

Georgia: U.S. Government export control assistance facilitated the passage of an export control law. Georgia hosted a session of the Central Asia and Caucasus Regional Forum co-funded by NADR and FREEDOM Support Act funds, and took the lead in drafting a regional transit agreement. Georgian officials also participated in Commerce Department legal/regulatory technical training workshops. U.S. export control assistance helped enhance Georgia's licensing procedures.

Kazakhstan: Kazakhstan has been receiving U.S. export control assistance since the mid-1990s, first under the Defense Department's CTR Program, then the Nonproliferation and Disarmament Fund (NDF), and later NADR. In FY 1999, U.S. Government-funded export control assistance to Kazakhstan remained focused on the country's nuclear industry, with the U.S. Department of Energy conducting several nuclear export control seminars. Notably, Kazakhstan hosted a NADR-funded Central Asia and Caucasus Regional Forum on Export Controls, promoting export control development in neighboring countries. The discovery of the sale of Kazakhstani MiG-21 fighter jets to North Korea led to a temporary suspension of all U.S. Government assistance to the Government of Kazakhstan, as well as a review of U.S. Government export control assistance, which was subsequently refocused increasingly on non-WMD transfers of proliferation concern. In response to these concerns, Kazakhstan moved to revamp its export control laws.

Kyrgyzstan: After intensive discussions with U.S. Government experts, the Government of Kyrgyzstan submitted a draft export control law to the parliament. Reflecting its increasing interest and commitment to export controls, Kyrgyzstan agreed to host the next Central Asia and Caucasus Regional Forum.

Moldova: In FY 1999, Commerce Department representatives reviewed and commented on Moldova's draft export control law, and Moldovan officials participated in a Commerce Department-organized legal exchange program addressing the essential authorities required for an export control law. In addition, the same Moldovan officials subsequently participated in a national control list workshop.

Russia: In FY 1999, the non-governmental Russian Center for Export Controls (CEC), working with the U.S. Department of Commerce (DOC), was engaged in efforts to install internal compliance programs (ICPs) in key Russian defense and high-technology enterprises. U.S. export control assistance also was instrumental in facilitating the adoption of a new, comprehensive export control law and other legal/regulatory changes in Russia.

Tajikistan: U.S. Government export control assistance facilitated the passage of an export control law with significant U.S. input. As programming capabilities in Tajikistan are limited due to the country's security situation, Tajik officials were invited to join in regional export control activities.

Ukraine: U.S. Government export control efforts in Ukraine have been extensive, and a considerable amount of equipment has been provided under the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program. In FY 1999, a State Department-led interagency team visited Kiev at the end of August to assess the effectiveness of U.S. Government export control assistance and discuss ways to broaden and expand these efforts. The U.S. Department of Commerce sponsored a legal executive exchange for Ukrainian parliamentarians and conducted export control enforcement workshops in Kiev and Odesa. Also Ukraine has completed a draft comprehensive export control law; established an interagency council and a State Service for Export Controls; and automated its export control licensing process and its border posts.

Uzbekistan: With U.S. Government assistance, Uzbekistan tightened both its export controls and its inspections of exports. Uzbekistan's Customs Service reports that this has led to significant interceptions of drugs and weapons in transit. Uzbeki-

stani officials are drafting export control legislation in close consultation with their U.S. counterpart. Uzbek officials also participated in Commerce Department legal/regulatory technical training workshops that helped enhance the country's licensing system.

U.S. Coast Guard - Border Security Programs

In FY 1999, the U.S. Coast Guard (USCG) played an active role in U.S. Government efforts to enhance border security and export control capabilities in the NIS by implementing a variety of assistance programs. These programs supported the development of maritime capabilities in the areas of nonproliferation, export control, counter-narcotics, counter-smuggling and border security operations in a manner consistent with international law, global maritime standards and internationally recognized human rights. Country-specific highlights are provided below:

Azerbaijan: With funding from the State Department's Bureau of Nonproliferation, the USCG and U.S. Customs Service conducted an assessment of the maritime requirements for Azerbaijan's Border Guard forces in October 1999. The assessment results will determine the nature of future assistance programs designed to enhance Azerbaijan's maritime border security capabilities.

Georgia: Three Georgian officials attended the USCG's International Maritime Officers' Course funded by the International Military Education and Training (IMET) Program. Under the Georgia Border Security and Law Enforcement (BSLE) Assistance Program, the USCG dispatched several mobile training teams to Georgia to conduct the following programs: an assessment of the Georgia Border Guard's command, control and communications requirements in November 1998; financial management training for four Georgian Coast Guard officials in December 1998; a port safety and security assessment in February 1999; a boarding officer course for 19 participants in June 1999; an engineering administration and outboard motor maintenance course for 15 participants in August 1999; and a 12-month deployment of a USCG basic training team to the Port of Poti that had trained 11 students by the end of FY 1999. Also in FY 1999, the U.S. Government allocated an USCG excess 82-foot patrol boat to Georgia under the Excess Defense Articles (EDA) Program. The vessel is due to be transferred in June 2000.

Kazakhstan: With funding from the State Department's Bureau for International Narcotics and Law Enforcement Affairs, a USCG mobile training team conducted a small-boat handling course for eight Kazakhstani officials in May 1999. One Kazakhstani student attended the USCG's IMET-funded International Maritime Officers' Course. Also in FY 1999, the U.S. Government allocated a USCG excess 180-foot buoy tender to Kazakhstan under the EDA Program. The vessel is due to be transferred in 2000.

Moldova: USCG activities in Moldova have been extremely limited, although the USCG anticipates dispatching one mobile training team to Moldova in FY 2000.

Russia: One Russian participant completed the USCG's IMET-funded International Maritime Officers' Course (IMOC), and an IMET-funded USCG mobile training team provided marine safety training in Russia in December 1999. In addition, the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program funded the visit of a Russian delegation to the USCG's District 17 Headquarters in Juneau, Alaska, to discuss issues of mutual interest.

Turkmenistan: One Turkmen participant completed the USCG's IMET-funded International Maritime Officers' Course (IMOC). With funding from the State Department's Bureau for International Narcotics and Law Enforcement, a USCG mobile training team trained 20 students in maritime law enforcement in June 1999. Also in FY 1999, the U.S. Government allocated an USCG excess 82-foot patrol boat to Turkmenistan under the EDA Program. The vessel is due to be transferred in May 2000.

Ukraine: One student enrolled in English language training in preparation for the International Maritime Officers' Course that begins in January 2000. An USCG orientation tour was held for the head of the Ukrainian Border Guards during his CTR-funded visit to the United States in August 1999.

Uzbekistan: In FY 1999, the USCG conducted a CTR-funded assessment of Uzbekistan's ability to conduct maritime operations on the Amu Darya River on the border between Uzbekistan and Afghanistan. Results of the assessment will be used to identify U.S. programs to enhance the river-patrolling capabilities of Uzbekistan's Border Guards.

U.S. DEPARTMENT OF STATE / U.S. CUSTOMS SERVICE – GEORGIA BORDER SECURITY AND LAW ENFORCEMENT ASSISTANCE PROGRAM

In FY 1998, the U.S. Department of State initiated the Congressionally mandated, multi-agency Georgia Border Security and Law Enforcement (BSLE) Assistance Program with FREEDOM Support Act funding. The Department of State designated the U.S. Customs Service (USCS) to be the executive agent for the BSLE Program and provided \$17.8 million in FY 1998 and \$17 million in FY 1999 to implement the program. Under State Department oversight, USCS developed and is implementing a focused, multi-year assistance program to enhance Georgia's border security and customs capabilities. USCS works closely with the Departments of State, Justice, Defense and Energy, as well as the U.S. Coast Guard (USCG), in implementing the BSLE Program, which has the following objectives:

- helping the Georgian Border Guards (GBG) and Customs Department (GCD) gain and maintain control over Georgia's borders following the withdrawal of Russian border guards from all of Georgia except Abkhazia and Ajara;
- more specifically, helping Georgia gain control of its seacoast, particularly the Port of Poti;
- helping to establish a transparent land border regime, focusing initially on the Azerbaijani and Armenian borders and subsequently on the Turkish border;
- enhancing GBG and GCD export control capabilities to prevent, deter and detect the smuggling of potential weapons of mass destruction, focusing on Georgia's border with Russia;
- improving the capabilities of Georgian law enforcement officials and legal authorities to investigate and prosecute criminal activity; and
- developing Georgia's law enforcement, legal and regulatory infrastructure.

USCS has trained approximately 75 Georgians since the inception of the BSLE Program. In FY 1999, the USCS continued to provide equipment, training, technical and advisory assistance to the GBG and GCD. BSLE program highlights included the following:

- overhauling five vessels and returning them to service for the Georgian Coast Guard;
- procuring navigation equipment for eight vessels and a tugboat that can be utilized for fuel transport, fire fighting, search and rescue operations, and patrolling;
- continued construction of barracks, a control tower and power stations at the Georgian Coast Guard's base at Poti and the procurement of dredging services to improve the GCG dock area;
- enhancing the operational capabilities of the GBG by providing it with patrol vehicles, an Mi-8 helicopter, a light aircraft, tanker trucks, radiation pagers, uniforms, night-vision equipment, and oil and fuel for the operation of all vehicles and vessels;
- enhancing the operational capabilities of the GCD by providing it with night-vision equipment, narcotics-testing kits, basic law enforcement equipment and uniforms;
- helping to establish an intelligence unit within GCD headquarters;
- procuring a security system for the Supsa oil terminal on the Black Sea, including a port radar, cameras and data systems to aid the GBG in responding effectively to any sea-borne threat to the terminal; and
- a variety of training programs for the conducted for the GBG and GCD by the USCS, USCG and the U.S. Department of Commerce.

In addition, USCS hosted a two-week International Visitors Program for the GBG and GCD chairmen in March 1999 that gave them an opportunity to meet with their U.S. counterparts, see U.S. law enforcement cooperation in action, and consider implementing cooperative efforts between the Georgian services. As a result of the program, the chairmen agreed to develop a joint training facility in Georgia and to consider joint border crossing facilities.

As described in the U.S. Coast Guard section above, USCG mobile training teams trained four GCG officials in financial management in December 1998, 19 officials in boarding procedures in June 1999 and 15 officials in engineering admini-

stration and outboard motor maintenance in August 1999. In addition, the USCG deployed a long-term (12-month) mobile training team that had trained 11 students in basic maritime operations as of the end of FY 1999.

To ensure adequate program oversight and coordination, the Department of State holds biweekly interagency working group meetings to closely coordinate the efforts of U.S. Government agencies under the BSLE Program. An advisory team staffed by three persons (two of whom speak fluent Georgian or Russian) resides in Georgia, where it works with U.S. Embassy personnel and Georgian Government officials to implement, monitor and coordinate the BSLE Program. In addition, USCS and State Department officials conduct periodic visits to Georgia to review the progress of the BSLE Program, and the USCS Office of Internal Affairs conducted an audit of the BSLE Program in April 1999. Virtually all BSLE technical assistance is delivered in the form of goods and services (e.g., communications and navigation equipment, ship engines, uniforms, construction of facilities and training courses) and does not lend itself to diversion or manipulation. Efforts are under way to strengthen internal controls of the GCD and GBG by introducing training on equipment accountability, individual responsibility and internal safeguards. A primary vulnerability in the BSLE Program lies in the purchase of fuel for vessels, a consumable item that is in chronic short supply throughout Georgia and is therefore subject to pilferage. A FY 1999 maritime training team discovered a large discrepancy (300 gallons) in the delivery of fuel for GCG vessels. When brought to the attention of the local vendor, the shortage was promptly restored.

In FY 2000, the BSLE Program will focus on establishing a country-wide command, control, communications system for the GBG, providing two additional Mi-8 helicopters, upgrading the GBG aviation facility in Tbilisi, constructing a joint GBG/GCD training center near Tbilisi, establishing a GBG operations center at the Georgia-Azerbaijan border crossing, transferring a decommissioned USCG 82-foot patrol boat to Georgia under the Excess Defense Articles (EDA) Program, and training programs geared specifically towards developing the leadership and management skills of GBG leaders.

U.S. DEPARTMENT OF ENERGY (DOE) - NONPROLIFERATION PROGRAMS

DOE implements a number of cooperative security-related assistance programs with the NIS countries. These programs focus on a number of areas: securing nuclear materials; reducing stockpiles of nuclear material; accelerating the transition of facilities and workers from nuclear defense work to civilian purposes; and nuclear safety. The overarching goal of these programs is to reduce the threat of nuclear material falling into the wrong hands, especially given the effects of the August 1998 Russian financial crisis. The focus of many of these programs has shifted since their inception, due to the changing environment in the NIS and taking into account lessons learned along the way.

DOE NUCLEAR MATERIALS PROTECTION, CONTROL AND ACCOUNTING (MPC&A) PROGRAM

Since 1993, the United States and the NIS have worked together to prevent the theft or loss of nuclear material. This joint effort to improve nuclear materials protection, control, and accounting (MPC&A) directly addresses a key threat to global security. MPC&A improvements are designed to keep nuclear materials secured in the facilities that are authorized to contain them, and are the first line of defense against nuclear smuggling that could lead to nuclear proliferation and/or nuclear terrorism.

This vital MPC&A cooperation has overcome many difficulties, including mutual suspicion from four decades of Cold War confrontation, a lack of working relationships at the technical level, the closed nature of nuclear facilities, and language and cultural differences. It is a remarkable achievement that former rivals are now working together to improve the security of nuclear materials at 55 identified sites in the NIS and the Baltic countries. The objective of DOE's MPC&A Program is to complete rapid MPC&A upgrades at all NIS facilities that use or store weapons-usable nuclear material. The program also seeks to foster the development of an indigenous safeguards culture and capability to maintain MPC&A upgrades over the long term. In addition, the program has undertaken cooperative projects that are designed to help institute national standards for MPC&A and strengthen national nuclear regulatory systems.

From FY 1992 through FY 1999, the U.S. Government has provided a total of \$573 million in funding for MPC&A programs in the NIS. From FY 1993 to FY 1995, MPC&A activities were managed and executed by DOE with a total of \$78.5 million in funding under the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program. In addition, DOE directly initiated a \$2 million program to support MPC&A activities and received \$15 million in FY 1996 CTR funds. DOE's MPC&A efforts have grown significantly over the past seven years. In FY 1996, the U.S. Congress provided DOE a direct appropriation of \$70 million for MPC&A activities, followed by \$112 million in FY 1997, \$137 million in FY 1998, and \$152 million in FY 1999.

In order to rapidly improve the security of nuclear materials that are usable in nuclear weapons, DOE's MPC&A Program is providing a range of training programs and modern safeguards equipment for nuclear facilities in the NIS, including radiation monitors for pedestrian and vehicular traffic which will detect attempts to remove nuclear material, modern access-control devices for areas containing nuclear material, alarm stations and computers to process data coming from sensors installed inside facilities and around their perimeters, and tamper-indicating devices to prevent unauthorized removal of nuclear material.

Program Reassessment and Reorganization: In FY 1999, DOE's MPC&A Program underwent significant reorganization and program reassessment in response to several key events in the NIS. Increased proliferation risks due to the August 1998 Russian financial crisis brought the MPC&A Program into the forefront of activities under the Administration's new Expanded Threat Reduction Initiative (ETRI). Moreover, after seven years of field-based hands-on experience working with the NIS countries, DOE considered it necessary to re-evaluate the MPC&A Program's mission and objectives. Areas evaluated included the extent of the nuclear materials security problem, initial assumptions about the magnitude of the problem, and the time and resources required to address it; the effectiveness of upgrades already installed to ensure sustainable security; the impact of a prolonged deteriorating economic situation in Russia; and the need for an independent review of the program to evaluate its goals and progress. The results of the reassessment yielded a new mission for the MPC&A Program, which focuses on reducing the threat to U.S. national security posed by unsecured Russian weapons-usable nuclear material through two main approaches: (1) by consolidating material into fewer buildings and at fewer sites and converting excess highly-enriched uranium (HEU) to low-enriched uranium (LEU) to reduce the number of theft targets, and (2) by installing sustainable physical security and accountancy upgrades appropriate for the level of material attractiveness and the threat of theft. The assessment also shifted the MPC&A Program in new directions, including the designing and applying of established criteria for evaluating MPC&A upgrades, re-organizing the MPC&A Program's headquarters-based Task Force charged with implementing the program into a permanent office within DOE (the Office of International Materials Protection and Emergency Cooperation), and refocusing key resources on three new major program elements: the Material Consolidation and Conversion Project, work with the Russian Navy, and the Site Operations and Sustainability Project, each of which are described below. These new approaches take into account lessons learned and experience gained to date by MPC&A program management and will use limited resources to attain the program's security objectives. In FY 1999, DOE committed \$152.2 million to pursue these new approaches to MPC&A activities in the NIS.

Material Consolidation and Conversion (MCC) Project: The MCC Project was initiated in May 1999 and is designed to address U.S. and Russian national security interests and nonproliferation objectives by dramatically reducing the proliferation attractiveness of Russian non-weapons highly-enriched uranium (HEU) and reducing the complexity of and long-term costs associated with securing remaining non-weapons HEU in Russia. MCC efforts provide secure storage for nuclear materials at fewer sites and at lower cost and by rendering a significant amount of such material not directly usable in nuclear weapons. In cooperation with the Russian Ministry of Atomic Energy (MinAtom) and the Luch facility, the MPC&A Program began an MCC model project in May 1999, which involved down-blending HEU to produce low-enriched uranium (LEU) enriched to between 17 and 19.5 percent U-235. In late August 1999, the Luch facility presented to U.S. monitors all of the HEU (enriched up to 90 percent) for the model project—approximately 200 kilograms, including material from Lytkarino, a MPC&A site. In the project's first five months, Luch down-blended approximately 125 kilograms of HEU to LEU. The model project will end in January 2000. In addition to work at Luch, Russia's State Scientific Center Research Institute of Atomic Reactors (SSCRIAR), which is located in Dimitrovgrad was designated as a receiver/down-blending site for the MPC&A program's second effort, an MCC pilot project. Preliminary discussions with SSCRIAR and MPC&A Program staff determined that a small conversion project would take place under the MCC pilot project in FY 2000. The project will convert approximately 250 kilograms of Uranium-235 into LEU (U_3O_8 enriched to between 17 and 19.5 percent U-235), thereby dramatically reducing its attractiveness to would-be proliferators. If successful, these activities will be expanded significantly in FY 2000 to convert between 500 and 1000 kilograms of U-235. If the MCC pilot project is as successful as the MCC model project, these initial activities will provide a firm basis for an expanded Russia-wide consolidation and conversion effort. On August 30, 1999, a letter of intent between DOE and MinAtom was signed in Jackson Hole, Wyoming, outlining key elements agreed upon for the MCC pilot project, such as the project's duration and scope, receiver-site upgrades, and the identification of donor facilities.

Russian Navy Project: In FY 1999, the MPC&A Program's Russian Navy Project made significant progress in securing nuclear materials of high proliferation concern. Key accomplishments included the completion of the installation of all MPC&A equipment at Navy Site 49, PM-63, and the Icebreaker Fleet Ship Imandra; the completion of a scoping study on the defueling of spent nuclear fuel from and dismantlement of general purpose nuclear submarines at Shipyard 49K; and expanding cooperation to include additional naval sites with spent nuclear fuel and other materials of high proliferation concern.

MinAtom Weapons Complex: In FY 1999, the MPC&A Program installed 482 one-ton delay/denial blocks at the Fissile Material Storage Facility at Mayak to protect 15 metric tons of plutonium oxide stored in 5,012 canisters. A physical inventory-taking (PIT) laboratory was delivered and is operating at Mayak. The PIT laboratory has demonstrated the ability to conduct nondestructive analysis of nuclear material contained in canisters at an average of six canisters per day. Also at Mayak, the MPC&A Program obtained working access to the Plant 1 HEU Oxidation and Purification Facilities and the RT-1 Plant HEU Calcination Facility. At Arzamas-16 (VNIIEF), the MPC&A Program completed trial operation of an integrated MPC&A system at the reactor site in guarded Area 12. DOE has suspended all new work at Arzamas-16 (VNIIEF), Chelyabinsk-70 (VNIITF), and the Serial Production Enterprises until a more consistent access policy is agreed to by MinAtom.

Civilian Complex: Site-wide security systems were installed at the Krylov Shipbuilding Institute in Russia and at the Aktau BN-350 Breeder Reactor and the Alatau Research Reactor at Almaty in Kazakhstan, bringing the total to 25 sites with installed site-wide upgrades. In addition, security system upgrades were installed at a number of sites. At Luch, a new central alarm station was completed. At Novosibirsk, the installation of an MPC&A system at Building 4 was completed. At Dimitrovgrad, the installation of MPC&A systems for the fresh fuel storage vault in Building 106 was completed. At Boshchvar, a radio communication system upgrade was completed and a 52-page site characterization report was prepared. At Elektrostal, all MPC&A activities were ceased as of September 30, 1999.

Site Operations and Sustainability (SOS) Project: The SOS Project was developed in FY 1999 to continue cooperative efforts with Russia after the installation of MPC&A equipment. The SOS Project seeks to reduce the threat of nuclear proliferation by ensuring upgraded MPC&A systems can be operated and maintained on a long-term basis. The SOS Project will focus on supporting Russian sites in certain operational aspects of their upgraded MPC&A systems, by establishing a feasible and understandable site-based MPC&A culture and organization that integrates into existing Russian operating procedures. The Project will foster relationships between the Russian facilities and essential support organizations to ensure that there is an effective cadre of trained operations, maintenance and response personnel. The SOS Project's FY 1999 accomplishments include the following:

- From December 1998 to March 1999, an Emergency Measures Initiative successfully delivered 164 winter coats for GosAtomNadzor (GAN—Russia's nuclear regulatory agency) inspectors, 3,063 winter uniforms, 605 emergency heat generators, and placed system performance contracts at 10 sites in Russia.
- The Project initiated joint DOE and GAN visits at sites in Russia.
- The Project completed an in-depth market research assessment of Russian vendors for a vendor-to-vendor initiative.
- The Project completed equipment assessments of alarm, communication and display systems.
- The Project completed site-level training assessments at Luch, the Moscow Institute of Theoretical and Experimental Physics (ITEP), the Joint Institute of Nuclear Research (JINR) in Dubna, the Kurchatov Institute, and Chelyabinsk-70.
- The Project implemented a high-priority accelerated baseline inventory at the Khlopin Radium Institute, the Petersburg Nuclear Physics Institute, the Moscow State Engineering Physics Institute (MEPHI), the Tomsk Polytechnic University (TPU), the ITEP, and the Krylov Shipbuilding Institute.
- The Project completed preliminary Y2K assessments of physical protection equipment and MC&A systems at MEPHI, ITEP, Luch, Khlopin, and the Krylov Shipbuilding Institute.
- The Project completed an MPC&A equipment catalog.
- The Project completed an equipment test bed at the Interdepartmental Special Training Center.

National MPC&A Project: In FY 1999, DOE's National MPC&A Project helped the Moscow State Engineering Physics Institute (MEPHI) establish a graduate program and a Russian Methodological and Training Center. In May 1999, eight students graduated from MEPHI with master's degrees in MPC&A. In addition, the MPC&A Program provided a secure truck set to Tomsk and the Navy projects, completed rapid upgrades on 33 railcars and 39 trucks, and processed 623 export license requests.

Programs in Other NIS Countries

During FY 1999, management responsibility for all non-Russian NIS MPC&A sites was transferred to the DOE's Office of International Safeguards. As of March 1999, the MPC&A Program's focus is solely on Russia. In FY 1999, DOE achieved significant results in the other NIS countries, including the sustaining of installed MPC&A systems, assessments of the current state of upgraded MPC&A systems, the remedying of noted deficiencies within upgraded MPC&A systems, and helping the NIS countries meet international safeguards commitments and physical protection guidelines.

Aktau BN-350 Fast Breeder Reactor Fuel Disposition Project: In FY 1999, DOE continued its efforts to safely and securely place in storage the spent nuclear fuel assemblies from the BN-350 nuclear power plant in Aktau, Kazakhstan. These assemblies contain nearly three tons of ivory-grade plutonium. In FY 1999, the program focused on the packaging phase, with DOE spending \$12.5 million to procure and install the hardware, equipment and systems needed to package the assemblies in welded, stainless-steel canisters containing inert gas. These funds also provided the assets required to carry out the packaging operations for nearly 2000 assemblies and to provide the safeguards systems and support required by the International Atomic Energy Association (IAEA) during packaging.

DOE EXPORT CONTROL ASSISTANCE / SECOND LINE OF DEFENSE (SLD) PROGRAM

DOE's comprehensive Export Control Program for the NIS is comprised of its traditional nuclear export control programs and the Second Line of Defense (SLD) Program. Since establishing its NIS Export Control Program in 1995, DOE has developed effective relationships with its NIS counterparts. DOE's strategy has focused on government-to-government, laboratory-to-laboratory and multilateral cooperation among donor states. The program has assigned the highest priority to countries with the greatest potential as suppliers of sensitive equipment, materials, and technology: Russia, Ukraine and Kazakhstan.

In FY 1999, DOE provided \$2.46 million for these activities. DOE's Export Control and SLD initiatives target areas not fully addressed by the DoD Cooperative Threat Reduction (CTR) or State Department Export Control Programs, or where DOE brings unique skills to bear. DOE's traditional export control programs encompass five objectives: (1) use of existing expertise; (2) establishment or enhancement of a legal regulatory framework; (3) developing a licensing program; (4) enhanced industry awareness; and (5) promoting the adoption of multilateral standards of conduct.

SLD is the first program for Russia designed to combat the trafficking of illicit nuclear materials across border and control points. In FY 1998, DOE began to implement the SLD Program to help Russia strengthen its overall capability to prevent nuclear materials, equipment and technology from getting into the hands of would-be proliferators. The SLD strategy is focused on two areas: procuring Russian-manufactured detection equipment for Russian Federation State Customs Committee (RFSCC) sites and border crossings, and developing training programs for RFSCC officials. A protocol signed by DOE and the RFSCC in June 1998 marked the beginning of collaborative efforts, and work was immediately begun to place detection equipment at Moscow's Sheremetyevo International Airport complex and the Caspian Sea port of Astrakhan, which is located about 400 miles from Iran.

Traditional Export Control Activities

U.S.-Russian Subgroup on Nuclear Export Control: In FY 1999, two meetings of the Subgroup on Nuclear Export Control were held: one in Moscow and one in Washington. The Subgroup, one of seven formed under the U.S.-Russian Bilateral Working Group on Export Controls, is co-chaired by DOE's NN-43 Office and MinAtom's International Relations Department. Issues discussed included recent changes in export control laws and regulations, multilateral technical and policy issues, and status of DOE-MinAtom export control cooperation. Costs are minimal since they entail only travel of U.S. and Russian Government participants.

Nuclear Export Control Workshops: In FY 1999, DOE allocated \$115,000 for three nuclear export control workshops held for MinAtom enterprises in Obninsk, Irkutsk and Snezhinsk that were organized and co-hosted by the Institute for Physics and Power Engineering (IPPE) and the All-Russian Research Institute of Technical Physics (VNIITF) together with the Oak Ridge (ORNL) and Lawrence Livermore (LLNL) National Laboratories. Seventy-five officials from forty-five MinAtom enterprises were trained in Russia's nuclear export control and export control laws, regulations and procedures.

Joint Nuclear Export Control Studies: In FY 1999, LLNL and ORNL cooperated with IPPE and VNIITF (MinAtom's export control laboratories) on joint export control studies to improve their ability to support the MinAtom Export Council. These ongoing studies, which cost \$155,000, are analyzing proliferation indicators, investigating the disposition of components from dismantled weapons, and developing reference guides for export controlled commodities.

Second Line of Defense (SLD) Program

SLD Training: In FY 1999, DOE invested \$400,000 in SLD training courses for nuclear specialists and front line customs inspectors focused on training in the use of nuclear detection equipment and in detecting and identifying nuclear smuggling

in a variety of customs settings. Experienced nuclear specialists trained novices on the job. These first FY 1999 training tasks continued into FY 2000. The SLD team drafted statements of work with the Russian Customs Academies for training tasks, ensuring that Russians will perform tasks with U.S. oversight. These tasks included standardizing customs course curricula in nuclear detection throughout Russia, developing a nuclear database for use at Russia's customs posts, and developing multi-media platforms for distributing training material to remote customs sites.

SLD Train Monitors: The SLD Program deployed its first train monitor units in FY 1999. These monitors are an important technology component for SLD, as many items in Russia are transported by railroad. Initial test results were positive. The systems will be tested using SNM at a Russian facility, and SLD will have access to the test results. Development of the train monitors closes off another exit pathway smugglers may use to illicitly transport nuclear material out of Russia. The monitors have been deployed in the Northern Caucasus and Caspian Sea region of Russia, and their deployment is also planned for the Russian/North Korean border in FY 2000. The SLD team also evaluated the performance of Yantar-1P portal monitor and MKC-A02 in March 1999. These tests also used SNM as the benchmark and performed well. The total cost of these activities was \$20,000.

SLD Site Surveys: In FY 1999, the SLD team evaluated and performed ten customs site surveys at a cost of \$90,000 for future deployment of SLD equipment. Sites included those regions most at risk for nuclear smuggling: the Northern Caucasus, St. Petersburg (near the Atlantic Nuclear Submarine Fleet) and the Russian Far East (near the border with North Korea and the Pacific Nuclear Submarine Fleet). Specific customs posts included St. Petersburg, Novorossiysk, Yesysk, Taganrog, Rostov-on-Don, Olya, the Vladivostok Commercial Port, Vladivostok Commercial Port No. 2, Vostochniy, and Medveskiy (Hasan).

DOE WARHEAD AND FISSILE MATERIAL TRANSPARENCY PROGRAM

Since FY 1994, funding for transparency and irreversibility activities under DOE's Warhead and Fissile Material Transparency Program has totaled \$52 million. Under this program, the U.S. Government has signed more than 40 contracts for laboratory-to-laboratory warhead dismantlement transparency projects involving all three Russian nuclear weapons laboratories and all four Russian nuclear weapons dismantlement facilities. In addition to providing the U.S. Government with valuable insight regarding the Russian nuclear weapons dismantlement process, this program has employed over 1,000 Russian nuclear weapons scientists, thus contributing to nonproliferation of weapons expertise. In FY 1999, the Warhead and Fissile Material Transparency Program funded \$9.5 million in projects.

HEU Purchase Transparency Program: This program is responsible for the negotiation and implementation of transparency measures under the HEU Purchase Agreement. The Office of Arms Control and Nonproliferation (NN-42) is the policy lead for DOE, which participates in negotiations with the Russian Government. The Office of International Nuclear Safety implements negotiated transparency measures, including conducting monitoring visits to Russian nuclear facilities, and staffing permanent presence offices.

Lab-to-Lab Warhead Dismantlement Transparency Program: This effort is intended to provide greater understanding of the Russian dismantlement process, encourage advocates for transparency in Russia, and provide employment to Russian nuclear technical staff. The program is implemented through contracts signed between U.S. and Russian national laboratories. The contracts are paid for by the U.S. National Laboratories, and deliverables are provided exclusively by the Russian national laboratories. Areas of work include radiation-measurement technology, tags and seals, remote monitoring, and other topics related to transparency. In FY 1999, DOE signed two new contracts, including one for development of a plutonium registry and received eight new deliverables under existing contracts, include a computer model of a hypothetical Russian warhead dismantlement facility.

Mayak/PPIA Transparency: DOE participates in the Mayak Transparency negotiations, and the Processing and Packaging Implementing Agreement (PPIA) transparency discussions, through official representation and expert advice from the DOE national labs. The purpose of these two fora is to negotiate transparency measures to make a weapons-origin determination on fissile material to be stored at the Mayak Fissile Material Storage Facility (FMSF). In 1999, DOE and national lab personnel participated in three rounds of negotiations to develop a transparency protocol and annexes to the Mayak FMSF Construction Agreement that would implement transparency measures on fissile material of weapons-origin to be stored at the Mayak FMSF. DOE and national lab personnel also participated in discussions to develop text to implement transparency measures under a PPIA for fissile material of weapons-origin to be stored at the Mayak FMSF. National lab technical experts met with Russian experts at Lawrence Livermore National Lab in April 1999 to develop technical measures to make a weapons-origin determination on fissile material to be stored at the Mayak FMSF. National lab technical

experts presented a design review to U.S. interagency representatives on a plan to conduct a technical exhibition to demonstrate procedures to measure attributes characteristic of a nuclear weapon component without releasing sensitive or classified information.

START III Program: This program is intended to identify technical measures and technologies that might be used under a future warhead dismantlement regime to provide confidence that a party to an arms control treaty is in compliance with the given treaty. A series of joint DOE-DoD technical measurements were made at Pantex in September 1999 to demonstrate technologies capable of meeting U.S. requirements for measurement equipment under a future bilateral warhead dismantlement transparency regime. A joint DOE-DOD monitored dismantlement demonstration was conducted at Pantex in October 1999 to display the suite of technologies available for use in a warhead dismantlement transparency regime, which could be used as part of a U.S. negotiating position.

DOE INITIATIVES FOR PROLIFERATION PREVENTION (IPP)

The mission of the IPP Program is to provide meaningful, sustainable, non-weapons-related work for former Soviet weapons-of-mass-destruction (WMD) scientists, engineers and technicians in the NIS through commercially viable market opportunities. IPP provides seed funds for the identification and maturation of technology and facilitates interactions between U.S. industry and NIS institutes for developing industrial partnerships, joint ventures and other mutually beneficial arrangements. Since 1994, IPP has funded over 440 projects involving more than 7,000 former Soviet weapons scientists at over 170 NIS institutes. In FY 1994, IPP received \$35 million in FREEDOM Support Act funding. From FY 1996 through FY 1999, IPP has been funded under the Energy and Water Development Appropriations Act. In FY 1996, IPP received \$10 million under that appropriation, plus an additional \$10 million from the U.S. Defense Department's CTR Program. Funded at \$30 million per year in FY 1997 and FY 1998 and \$22.5 million in FY 1999, IPP has received total U.S. Government funding of nearly \$140 million through FY 1999.

FY 1999 was a year of change for IPP. At its inception in FY 1994, the program's emphasis was on the rapid engagement of as many former weapons-related institutes as possible. In FY 1994, 63 percent of project funding was for technology validation projects. Often, these projects were well below \$100,000. A trend towards emphasizing projects that feature U.S. industry cost-sharing began in FY 1998 and continued to strengthen in FY 1999, with 64 percent of IPP funding directed to U.S. industry cost-shared projects. Over the life of the program, IPP has allocated \$38 million to 79 U.S. industry cost-shared projects. This amount has been leveraged by \$64 million of in-kind and "funds-in" contributions by U.S. industry, at a rate of \$1.68 per dollar of DOE funding. This reflects the U.S. private sector's strong endorsement of IPP's approach to industry involvement, one of the unique aspects of the IPP program, particularly since half of IPP's industry cost-sharing projects involve small businesses. Another unique aspect of the IPP Program is the role of the U.S. national laboratories, which promote the engagement of their NIS counterpart institutions through project development activities; provide technical contributions to projects, project management and reporting, intellectual property management assistance, and engagement and work with U.S. industry partners in joint development work for commercialization.

To ensure adequate program oversight and accountability of project funds in the NIS, DOE national laboratories are involved in developing and executing projects through close, scientist-to-scientist interaction. IPP projects in the NIS are performed under firm, fixed-price subcontracts from the national laboratories. Payment is made only when a previously agreed-upon "deliverable" under the subcontract's statement of work is delivered and certified by the project's National Laboratory principal investigator (NLPI). Deliverables can include hardware, software, data or reports. By involving NLPs in IPP projects as sub-specialists in the project field, DOE is maximizing the likelihood that deliverables under the subcontract(s) will represent contemporaneous, agreed-upon work. There have been instances where project deliverables were either delayed or did not fit the specification of the agreed-upon statement of work, resulting in no payment being made to the NIS partners. One such example took place in a project involving Lawrence Livermore National Laboratory and Snezhinsk to develop a manufacturing plan for roll-formed aluminum automobile wheels. In addition, a number of IPP projects have been terminated early because of non-delivery of agreed-upon deliverables. In addition, personal, on-site visits and close collaboration by NLPs in the NIS (and by the NIS principal investigator at the National Laboratories) for all IPP projects provide a second set of oversight opportunities. Each NLPI spends an estimated nine days per subcontract in the NIS and each NIS principal investigator spends an estimated six days per subcontract at U.S. National Laboratories. Taken together, these measures allow IPP to exercise close oversight over NIS projects through its National Laboratories.

In FY 1999, IPP received \$22.5 million in funding, which was allocated as follows: \$11.1 million for projects involving U.S. industry cost-sharing ("Thrust 2"), \$6.2 million for other ("Thrust 1") projects, \$2.8 million for administration and infrastructure at the National Laboratories, \$700,000 for the U.S. Industry Coalition (USIC), \$400,000 for a University of

New Mexico business development project at Snezhinsk, \$1.1 million for activities in Russian closed cities under the Nuclear Cities Initiative, \$200,000 for a Chernobyl-related international nuclear safety project. U.S. industry has or will allocate \$30 million to match \$28 million in total DOE funding of the 41 Thrust 2 projects that are still under way. IPP Program highlights are provided below:

- IPP projects funded in FY 1999 have engaged 1,100 NIS scientists, engineers and technicians, fulfilling IPP's nonproliferation objectives.
- Since FY 1994, scientists involved in IPP projects have published 163 articles in professional journals and given dozens of presentations at symposia arising from IPP projects.
- In FY 1999, five U.S. and foreign counterpart patent applications were made based on developments in IPP projects. Additionally, one patent was issued on an earlier IPP-related application.
- In FY 1999, DOE funded 41 Thrust 2 projects (those involving U.S. industry cost-sharing) and brought six projects to the point of imminent commercialization. These projects are identified below:

Title	U.S. Company	NIS Institute	Annual Sales (000s)	Size of NIS Staff	Comments
Nanophase Powders	Argonide Corporation	Russian Republican Engineering Center	\$435	7	Materials made in Russia, sold in U.S.
Positron Emission Technology	Technology Commercialization International	Russian Nuclear Research Institute	\$755	90	Sr-82 Radio-Isotope produced in Russia; sold in U.S.
Gas Chromatographs & Replacement Columns	Mine Safety Appliances	Russian Center for Instrument Engineering	\$300	9	Chromatographs and columns made in Russia; sold in U.S.
Recycling Co-mingled Metals	Rustec	Russian Association for Engineering & Automation	\$1,220	4	Unique Russian crusher design; Russians supply replacement parts
Production of Tc99m Radio-Pharmaceuticals	No U.S. partner	Khlopin Radium Institute	\$65	12	Tc99 is produced in Russia to treat 12,000 Russian patients per year.
Smart Video	Aquila Technologies	General Physics Institute	\$2,000	10	Software for smart video system developed & supplied by Russians
TOTAL			\$4,775	132	

- IPP joined the State Department's Science Centers Program and NATO in co-sponsoring a September 1999 symposium on sponsored biological research in Russia at Akademgorodok in the Novosibirsk Region of Russia. At the symposium, biological researchers presented 45 papers on topics such as general biotechnology, infectious diseases and biodiversity. Participants included representatives of the U.S. pharmaceutical industry and some 75 Russian and Kazakhstani scientists. DOE anticipates that sponsoring research review symposia will become an annual event for IPP.

Country-specific highlights of the IPP Program's FY 1999 accomplishments are provided below:

Russia: During FY 1999, IPP funded 67 new projects at institutes in Russia, including 13 projects in closed nuclear cities in support of the U.S. Energy Department's Nuclear Cities Initiative (NCI).

Ukraine: IPP is close to approving seven new projects at institutes in Ukraine. As a result of a December 1999 U.S. and Ukrainian Government exchange of letters regarding the process for establishing and registering IPP projects as U.S. assis-

tance in Ukraine, these new projects, plus ten existing ones, will be able to go forward with the assurance of tax exemptions for all IPP salary payments to Ukrainian scientists.

Kazakhstan: DOE has re-started six suspended IPP projects and approved four new projects at institutes in Kazakhstan as a result of an October 1999 decree by Kazakhstan's prime minister granting tax exemptions to all IPP salary payments to Kazakhstani scientists. Two of the four new projects are designed to redirect former biological weapons scientists at the National Center on Biotechnology in Stepnogorsk to peaceful research.

Belarus: No new IPP projects have been approved in Belarus since July 1997, in accordance with the U.S. Government's policy of select engagement with Belarusian Government officials and institutions. Only one U.S. industry cost-shared IPP project remains active in Belarus: an environmental project focusing on remediating the impact of the Chornobyl disaster. One IPP project was cancelled early in FY 1999, due to non-performance. This is an example of the valuable oversight role played by the DOE National Laboratories under the fixed-price subcontracts with NIS institutes.

Implementation of GAO Recommendations

In February 1999, the U.S. General Accounting Office (GAO) released its report *Nuclear Nonproliferation: Concerns with DOE's Efforts to Reduce the Risks Posed by Russia's Unemployed Weapons Scientists* (GAO/RCED-99-54). The report made a number of recommendations, all of which have been accepted by DOE. Some of the GAO's recommendations are highlighted below:

- **IPP should not pay any more taxes in the NIS.** IPP has taken steps to use the U.S. Civilian Research and Development Foundation (CRDF) for all program payments in Russia in FY 2000 to ensure that salary payments to Russian scientists are tax-exempt. DOE is working with other U.S. Government agencies to implement the regulations corresponding to the Russian tax legislation passed in May 1999. DOE is also registering IPP projects with the Government of Ukraine to ensure their exemption from taxes and has secured a decree from the Government of Kazakhstan granting tax exemptions for all IPP salary payments to Kazakhstani scientists. DOE has issued guidance that there will be no NIS taxes or social charges paid from IPP funds in FY 2000.
- **IPP should increase the quality of its project dual-use reviews.** IPP has re-emphasized its policy of no contribution to weapons-of-mass-destruction (WMD) capability and has developed clear guidance to ensure Russian nuclear scientists or engineers employed in nuclear weapons facilities to enhance safety and stability are not precluded from working on IPP-funded projects. There will be no funding of scientists, engineers or institutes working on modernization of offensive chemical or biological technology or assisting sensitive countries. IPP has also strengthened its dual-use review process.
- **IPP should increase its percentage of funds to the NIS.** DOE has increased IPP funds going to the NIS such that in FY 1999, a greater portion of IPP funds have gone to the NIS than to DOE's National Laboratories. In FY 2000, no more than 35 percent of IPP funding will go to the National Laboratories.
- **IPP should increase its commercial emphasis.** In FY 1999, DOE allocated 64 percent of IPP project funding to Thrust 2 projects (those involving U.S. industry cost-sharing). In terms of numbers of projects, IPP has funded 41 Thrust 2 and 35 Thrust 1 projects in FY 1999. Numerous Thrust 2 projects have been commercialized or are ready for commercialization. Six projects are now at the point of taking off commercially, with an additional 13 expected to be ready for commercial take-off by 2001. IPP also re-engineered the U.S. Industry Coalition (USIC) in 1999. USIC assists U.S. industry members in commercializing successful IPP projects, participates in partnership formation, and reviews all IPP projects for commercial potential. USIC has been relocated to the Washington, D.C., area, and recently appointed a new executive director, sharpened its focus, achieved cost reductions, and expanded its membership.
- **IPP should account for all Russian scientists and engineers it has engaged.** In December 1998, NLPs identified all NIS scientists and engineers working on projects since inception. Some 6,248 have worked an average of three-fourths of their time on IPP projects. All new IPP project proposals must list NIS scientists and engineers. DOE will maintain detailed information on scientists and engineers engaged in the program.

Next Steps

- **Relocate contracting role within DOE:** In an effort to reduce non-technical costs associated with National Laboratory involvement in IPP, it is expected that the contracting function of IPP's projects will be relocated from the National Laboratories to DOE facilities. Costs of writing contracts at the National Laboratories will no longer be incurred, while the Laboratories' role in project formation, collaborative work and technical oversight will be unchanged.
- **Continue and accelerate commercialization emphasis:** IPP will complete its shift from the goal of engaging NIS scientists, engineers and institutes to one of commercialization. Emphasis will be on U.S. industry cost-shared projects; unless special considerations dictate otherwise, there will be no Thrust 1 (technology validation) projects. The re-engineered USIC is expected to play a major role in this emphasis.
- **Conclude televideo link installations:** IPP has succeeded in linking many prominent NIS weapons-related institutes to U.S. national laboratories via televideo links, but will fund no new NIS televideo installations in FY 2000.

IPP has made changes to improve its focus and direction, while continuing the original mandate of Public Law 103-87, Section 575. IPP continues to be one of the U.S. Government's key nonproliferation programs. In FY 2000, IPP will stress its two unique features: (1) active technical oversight and involvement of the National Laboratories in developing NIS technologies for commercialization and (2) the involvement of U.S. industry in technology development for commercialization on a cost-sharing basis.

DOE - NUCLEAR CITIES INITIATIVE

The Nuclear Cities Initiative (NCI) is a nonproliferation program established by the U.S. Department of Energy in late FY 1998. NCI is designed to help Russia provide new employment opportunities to the workers who are displaced through downsizing of the Russian nuclear weapons complex. DOE has initially concentrated its efforts on three focus cities of Sarov, Snezhinsk and Zheleznogorsk, which house the two Russian weapons-design laboratories and a plutonium production enterprise. NCI is helping create the conditions under which new jobs can be created through economic diversification in these closed cities.

In FY 1999, NCI completed its first year of operations. U.S. Government funding for NCI in FY 1999 was \$12.5 million, of which \$5 million was contributed by the Initiatives for Proliferation Prevention (IPP) Program. During FY 1999, several projects were approved for implementation under NCI, including an open computing center at Sarov; international development centers (IDCs) at Sarov, Snezhinsk and Zheleznogorsk; nonproliferation centers at Sarov and Snezhinsk; a pharmaceutical packaging company in Snezhinsk; laparoscopy and tele-medicine projects for Sarov, and telecommunications improvements for all three cities. Program highlights are provided below:

- **Sarov Open Computing Center (OCC):** DOE focused on establishing an OCC in Sarov to capitalize on trained institute personnel and, by using the Internet, to avoid access problems posed by the continued closed nature of the city. DOE worked closely with MinAtom and Sarov leaders to select a suitable facility, remodel it, equip it with computers and begin to employ former weapons scientists on initial projects. The Sarov OCC was dedicated by Secretary of Energy Richardson and Minister of Atomic Energy Adamov on October 1, 1999. Negotiations are under way to establish a second OCC at Snezhinsk.
- **International Development Centers (IDCs):** DOE invested in IDCs in the three focus cities to provide a forum for promoting business opportunities to Western firms and a center for training former weapons scientists in business fundamentals. The IDC at Zheleznogorsk was dedicated by Under Secretary Moniz in September 1999. Legal documents for this center were drafted and approved, a director and deputy director hired, and the selected facility was remodeled. The Zheleznogorsk IDC was officially opened on November 2, 1999, and legal documents were being prepared for the Sarov and Snezhinsk IDCs. Facilities have been selected in both cities, a search is on for a director for Snezhinsk, and negotiations continue in Sarov. DOE plans to have all three IDCs operational by early 2000.
- **Telecommunications Improvements:** Discussions continue between DOE, the three focus cities, and institutes on the best ways to expand telecommunications/Internet connectivity into the three cities. Each city has submitted a plan that DOE is currently reviewing and refining.

- **Business Plan Support:** U.S. and Russian experts are currently working together to improve the quality of the business and technical plans for project proposals.
- **Analytical Centers for Nonproliferation:** An Analytical Center for Nonproliferation was opened in Sarov in October 1999, providing jobs for 30 people. Negotiations continue on the opening of a similar center in Snezhinsk. DOE is reviewing a formal proposal from Snezhinsk to fund the Center.
- **Sarov Laparoscopy and Tele-Medicine Projects:** DOE and Sarov finalized the details on laparoscopy and tele-medicine projects proposed by Sarov. Procurement of necessary equipment for the projects is under way.
- **Snezhinsk Pharmaceutical Packaging Project:** Efforts continue to provide an adequate facility and sufficient financial support for a Pharmaceutical Packaging Project at Snezhinsk. The first phase of the project is expected to move forward with new financial support. DOE will assist, as necessary, in helping identify funding for the second phase of the project. While awaiting completion of the facility and necessary financing, the Russian firm opened a pharmacy in Snezhinsk and successfully bid to supply pharmaceuticals to the city.
- **Defense Conversion Projects:** DOE and MinAtom completed a strategic plan for the accelerated conversion of defense enterprises in Sarov and are working together to develop similar plans for Snezhinsk and Zheleznogorsk.
- **Other Projects:** Preliminary development is under way on a number of projects to be presented to the Joint Steering Committee for consideration. These include establishing an open computing center (OCC) and a nonproliferation center at Snezhinsk; kidney dialysis and business partnering projects at Avangard in Sarov; projects involving oil and gas perforators, bar-code technology and fiber optics at Snezhinsk; and mercury lamp recycling and food-oil production projects at Zheleznogorsk.

NCI ensures oversight and accountability of project funds in Russia through several means. All funds are transferred via contract mechanisms in which clear requirements and deliverables are specified. No funds are paid out unless these requirements have been met. All contracting with Russian entities follows U.S. Federal Acquisition Regulations, and the funding is provided via DOE and National Laboratory contracting officers. Frequent visits to the participating cities allow DOE and its contractors to monitor progress on each contract.

DOE FISSILE MATERIALS DISPOSITION PROGRAM

The DOE Fissile Materials Disposition (MD) Program has both a U.S. and a Russian component. Both efforts focus on the disposition of weapons-grade plutonium that has been withdrawn from nuclear weapons and designated as no longer required for defense purposes. In the United States, DOE is implementing a hybrid plutonium disposition strategy that involves the burning of surplus plutonium as mixed oxide (MOX) fuel in existing domestic commercial reactors, and the immobilization of surplus plutonium in ceramic surrounded by vitrified high-level waste. Both technologies meet the "spent fuel standard" through which plutonium is made as inaccessible and unattractive for retrieval and weapons use as the residual plutonium in spent fuel from commercial reactors. The MD Program's work with Russia is aimed at developing reciprocal Russian strategies, actions and outcomes for the disposition of Russia's excess plutonium.

From FY 1993 to FY 1999, DOE's MD Program budgeted approximately \$50 million for activities related to plutonium disposition in Russia. In July 1996, the U.S. and Russian Governments signed an agreement on scientific and technical cooperation to govern joint U.S.-Russian cooperative activities in plutonium disposition for the next five years, which is renewable in five-year increments. All U.S.-Russian joint activities are subject to this agreement and to its management protocols, which were subsequently agreed upon by DOE and MinAtom.

FY 1999 Program Highlights

- **Fabrication of MOX Fuel for Thermal Reactors:** The MD Program assisted and encouraged Russia to develop a MOX fuel fabrication process that is compatible with surplus weapons-grade plutonium, test the resulting fuel, and qualify it for use in a VVER-1000 water reactor. Final fabrication and use of the fuel is subject to approval by GosAtomNadzor (GAN), Russia's nuclear regulatory authority, which will license the use of MOX. RosEnergoAtom, the Russian utility that operates nuclear power reactors, is also involved in the effort, as the ultimate user of the MOX fuel.

- **Validating the Performance of MOX-Fueled Thermal Reactors:** VVER-1000 water reactors in Russia currently are fueled with uranium. Considerable work is required to ensure that they can be fueled with mixed plutonium and uranium oxide fuel. The first stage of this effort involves computer feasibility studies. This joint U.S.-Russian project is aimed at verifying and updating computer codes used to predict the behavior of MOX fuel in VVER-1000 reactors. Verification of the codes to be presentation to GAN for licensing approval is under way, and the development of a licensing plan for VVER-1000 reactors (including transportation, storage, and other associated activities) is being initiated with GAN.
- **Converting the Russian Fast Neutron Reactor to a Plutonium Burner:** DOE is helping Russia assess the feasibility of converting Russia's BN-600 reactor, a fast-neutron reactor, into a net burner of plutonium. The BN-600 currently operates on a fuel cycle that consumes uranium and produces some plutonium. Preliminary estimates indicate that the reactor could be modified to burn MOX fuel, perhaps even utilizing a full MOX core. DOE-supported Russian design studies, safety analyses and an economic analysis are currently under way.
- **Plutonium Conversion Technology:** The objective of this work is to design and build a facility for converting weapons-origin plutonium metal to an oxide form suitable for use in MOX fuel and for international inspection. The conversion facility will have an initial capacity of two metric tons per year of metal and be expandable as more reactors become available to use MOX fuel. Current work is aimed at the design and construction of a facility to demonstrate the preferred Russian conversion technology at a capacity of 300 to 400 kilograms per year, and research and development tasks are being conducted to optimize the conversion technology. Last year's work on the design of a non-destructive assay system for the oxide produced is being continued and will ultimately lead to fabrication of the system.
- **Immobilization Program:** DOE has developed a Russian excess weapons-plutonium immobilization program. Engineering feasibility studies for immobilizing plutonium-containing materials at the K26, Mayak and RIAR sites are in progress. Research and development (R&D) contracts at the Russian Institutes VNIINM, VNIPIPT, KRI and RIAR are developing glass and ceramic technologies suitable for immobilizing Russian plutonium-containing materials at Russian sites, including storage and eventual geologic disposal. Studies of U.S. excess plutonium ceramic immobilization are in progress at three Russian institutes: RIAR, VNIINM and KRI.
- **U.S.-Russian-Canadian Project to Burn Mixed Oxide Fuel in a Canadian Nuclear Reactor:** This effort will examine the technical feasibility of burning MOX fuel made from surplus U.S. and Russian weapons plutonium in existing Canadian deuterium uranium reactors. The scope of the project involves fabrication, irradiation, and post-irradiation examination of a small number of MOX fuel rods. Los Alamos National Laboratory has fabricated a limited quantity of fuel pellets for use in the demonstration. Russia's A.A. Bochvar State Enterprise All-Russian State Research Institute of Inorganic Materials (VNIINM) has fabricated a similar number of MOX pellets. Shipment from the United States and Russia to Canada is expected in FY 2000. The test irradiations and post-irradiation examinations will be conducted at the Chalk River reactor facility in Canada.

Future Activities

- **Bilateral Agreement on Plutonium Disposition:** Efforts are under way to negotiate a bilateral agreement between Russia and the United States for the disposition of weapon-grade plutonium that has been withdrawn from nuclear weapons programs and designated as no longer required for defense purposes. This agreement will fulfill commitments made by the U.S. and Russian Presidents at the September 1998 Moscow Summit. Under the agreement, the parties would commit to disposing of 34 metric tons of weapons-grade plutonium from nuclear military programs and would cooperate to pursue disposition of additional quantities of plutonium in the future. It is anticipated that the bilateral agreement would specify the technological approaches, program schedules and milestones for each country, and commitments with respect to the financing of these activities in Russia.
- **Agreement Implementation:** Once a plutonium disposition agreement is in place, the U.S. and Russian Governments will proceed with roughly parallel programs involving comparable, although not necessarily identical, rates of plutonium disposition. In Russia, this program will require the design, construction and operation of facilities to convert plutonium for the fabrication of MOX fuel, as well as modifications of Russian reactors and associated infrastructure as necessary to permit safe and secure disposition of the plutonium through irradiation as MOX fuel. In the initial phase of the program, Russia would be expected to have an annual disposition capacity of two metric tons of weapon-grade plutonium per year. The parties would pursue efforts to at least double this disposition rate for a subsequent phase of the program. This could be accomplished by expanding the utilization capability of existing reactors in Russia and the

identification and utilization of other reactor capacity elsewhere, accompanied by a corresponding expansion of the plutonium conversion and MOX fabrication facilities.

- **Supplemental Appropriation:** The initiative to dispose of excess Russian plutonium received strong Congressional and Administration endorsement in the form of a \$200 million supplemental appropriation in FY 1999 to implement plutonium disposition in Russia. Release of this funding is dependent upon U.S.-Russian signature of a bilateral plutonium disposition agreement. Upon becoming available, this funding will be spent in the FY 2000-2003 timeframe to initiate design, licensing and equipment procurement for plutonium disposition facilities in Russia. The \$200 million will not fund the entire Russian plutonium disposition program, which is expected to cost on the order of \$1 billion, but will provide a much-needed “jump-start” for this initiative. However, it should be noted that \$49 million was rescinded in FY 2000, but is anticipated to be made available at a later date.
- **Gas Reactor Technology Development:** In the FY 2000 Energy and Water Development Appropriations Act, the U.S. Congress once again earmarked \$5 million in DOE’s Fissile Materials Disposition budget to fund joint U.S.-Russian development of gas reactor technology to dispose of excess weapons-derived plutonium. Of this funding, \$2 million will be available for work to be performed in the United States, and \$3 million will be available for work in Russia. The \$3 million will be made available for work in Russia on the gas reactor technology on the condition and only to the extent that the Russian Government matches these contributions with either comparable funding or in-kind contributions. It is the intention of the U.S. Congress that these funds serve as “seed money” for efforts to gain financial commitments from other countries and the private sector for future funding of this effort. This work will build on conceptual work that has already been completed. The principal Russian institutes involved are Kurchatov, OKBM, and Bochvar. A general order agreement has been signed between DOE and OKBM that will provide the framework for implementing a joint work plan for completing near-term gas reactor design development and demonstration activities in Russia.
- **Tests and Demonstrations:** The series of U.S.-Russian small-scale tests and demonstrations of plutonium disposition technologies, initiated in the FY 1997-98 timeframe, will continue in FY 2000.

DOE REDUCED ENRICHMENT FOR RESEARCH AND TEST REACTORS (RERTR)

The RERTR Program is designed to promote the further reduction of international commerce in highly enriched uranium (HEU) through the conversion of Soviet-designed research and test reactors from HEU to low-enriched uranium (LEU) fuel. The program has funded conversion studies, safety analyses, fuel development and fuel tests needed to establish the technical and economic feasibility of converting Russian-supplied research and test reactors to the use of LEU fuels.

In 1995, the Argonne National Laboratory (ANL) and Russia’s Research and Development Institute of Power Engineering (RDIPE) signed an agreement to cooperate in the development of Russian-designed research and test reactors, both within and outside of Russia, that convert HEU fuel to LEU fuel. A new contract containing language on intellectual property rights (IPR) was signed between ANL and Russian labs in June 1996. In 1996, the U.S. Government provided \$450,000 in funding used for direct payments to Russian institutes for contract deliverables, from the State Department’s Nonproliferation and Disarmament Fund (NDF) for the first full year of the contract. Plans were made for Russia to provide approximately \$3 million for the same period and for projected work to take place over at least five years. In FY 1997, work continued on the tasks covered by the first year of the contract with U.S. Government funding of \$520,000. MinAtom continued to provide funding to Russian institutes participating in RERTR work, although the amount of this funding has not been determined. In FY 1998, RERTR work continued on each side independently, with DOE providing approximately \$1 million in funding for the program. About \$25,000 of this amount was used for the participation of four Russian scientists who presented papers at the annual RERTR international meeting. In FY 1999, DOE spent \$977,000 for RERTR activities at ANL. In addition, the NDF provided \$22,000 for RERTR irradiation tests in St. Petersburg and for an analysis of the WWR-M reactor in St. Petersburg. In FY 1999, the RERTR program supported the continued irradiation of five LEU elements in the WWR-M reactor at the Petersburg Nuclear Physics Institute in Russia. In addition, it supported analytical studies to investigate the feasibility of converting to the use of LEU fuels several Russian-designed research reactors currently operating with HEU fuels. These reactors include the IR-8 reactor in Moscow and the WWR-M reactor in St. Petersburg.

SOCIAL-SECTOR AND HUMANITARIAN PROGRAMS

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

In FY 1999, USDA provided almost \$1.28 billion in humanitarian food aid and concessional loans to the NIS countries, consisting of approximately \$557 million in government-to-government food aid grants, \$538 million in concessional food aid loans, and over \$183 million in targeted direct feeding and food aid monetization programs implemented by U.S. PVOs. In addition, USDA provided a total of \$50 million in export credit guarantees to the NIS countries under its GSM-102 Program: \$5 million to Azerbaijan, \$10 million to Georgia, \$15 million to Kazakhstan and \$20 million to Uzbekistan. Country-specific highlights are provided below:

Armenia: In FY 1999, USDA allocated \$9.15 million for the provision of approximately 6,200 metric tons (MT) of food commodities to Armenia, drawing from USDA resources under the Food for Progress and Section 416(b) Programs. Under its Food for Progress Program, USDA donated approximately 5,700 metric tons (MT) of commodities through two U.S. private voluntary organizations (PVOs) working in Armenia: the Fund For Armenian Relief (FAR) and the United Methodist Committee on Relief (UMCOR). UMCOR monetized 2,500 MT of these commodities and used the proceeds to carry out several programs to assist health care providers and to improve agricultural facilities. FAR used 1,900 MT of donated commodities for the direct feeding of 60,000 beneficiaries. In addition, FAR used the proceeds from the monetization of 1,300 MT of commodities to help revitalize the country's dairy industry. In addition to the Food for Progress commodity donation, USDA also donated 500 MT of dry milk to support United Nations World Food Program (WFP) initiatives in Armenia. In FY 1999, the Government of Armenia decided not to accept a \$10 million concessional loan for the procurement and delivery of U.S. wheat to Armenia under USDA's P.L. 480, Title I Program, basing its decision on the premise that accepting the loan would have exacerbated the country's 1999 budget deficit and would therefore have seriously jeopardized the planned release of segments of Armenia's International Monetary Fund (IMF) and World Bank loans. The Armenian Government subsequently requested a USDA Section 416(b) grant wheat program for FY 2000, the provision of which will be dependent on commodity availability and funding authority.

Azerbaijan: In FY 1999, USDA allocated \$8.33 million for the provision of approximately 19,400 MT of food commodities to Azerbaijan, mainly through agreements with the Adventist Development and Relief Agency (ADRA), U.S. private voluntary organization (PVO). ADRA received 12,580 MT of wheat under USDA's Section 416(b) Program, as well as 3,820 MT of vegetable oil, rice and beans. ADRA directly distributed a portion of these commodities through its feeding program and monetized the remainder, using the proceeds to support the further development of a technology transfer program targeted at Azerbaijan's agricultural sector. In addition, the WFP distributed 3,000 MT of USDA-donated wheat flour as part of its ongoing efforts to aid war victims and displaced persons.

Georgia: In FY 1999, USDA allocated \$14.79 million for the provision of over 55,000 MT of food commodities and provided a \$5.0 million concessional food aid loan to Georgia under its P.L. 480, Title I Program. USDA donated a total of 46,883 MT of wheat and wheat flour under its Section 416(b) Program and 8,513 MT of food commodities under its Food For Progress Program. The Section 416(b) commodities were divided among International Orthodox Christian Charities (IOCC), UMCOR and the WFP. IOCC distributed 1,383 MT of flour to beneficiaries in southern and western Georgia. UMCOR monetized 8,000 MT of wheat to support its medical and credit programs in eastern Georgia. The remaining 1,500 MT of Section 416(b) wheat flour was distributed by the WFP. Food For Progress commodities were divided among IOCC, UMCOR and the International Rescue Committee (IRC). IOCC received 306 MT of kidney beans, 462 MT of rice and 2,550 MT of vegetable oil. UMCOR used 1,195 MT of oil to support its above-mentioned programs, and the IRC monetized 4,000 MT of soybean meal to fund a farm micro-credit initiative. In addition to receiving the \$5 million concessional loan, the Government of Georgia also received 36,000 MT of wheat under USDA's Section 416(b) Program. Georgia also received \$10 million in export credit guarantees under USDA's GSM-102 Program.

Kazakhstan: In FY 1999, USDA allocated \$6.88 million for the provision of approximately 7,300 MT of food commodities to Kazakhstan. Under its P.L. 480, Title III Food for Progress Program, USDA provided 3,000 MT of U.S. soybean meal and 4,300 MT of U.S. corn oil valued at \$5.6 million. Winrock International and Mercy Corps International administered this commodity monetization program, whose proceeds were used to fund micro-lending to local farmers. As part of the American Red Cross's Aral Sea Region Program, Kazakhstan received over \$1.28 million in food aid under USDA's Food for Progress Program and almost \$257,000 through USDA's Section 416(b) Program in support of direct-feeding initiatives. In addition, under USDA's GSM-102 export credit guarantee program, Kazakhstan imported 10,000 metric tons of U.S. chicken legs valued at \$10 million, the sale of which was financed by a one-year credit from Citibank.

Kyrgyzstan: In FY 1999, USDA allocated \$24.83 million for the provision of approximately 80,750 MT of food commodities to Kyrgyzstan, including 10,750 MT of commodities through its Food for Progress Program. Use of these commodities was coordinated by Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), the American Association of Hematologists of the World for Children (AIA) and Mercy Corps International (MCI). ACDI/VOCA monetized 7,000 MT of wheat to fund rural credit, market liberalization and food security programs in southern Kyrgyzstan. AIA conducted direct-feeding programs at children's healthcare centers, distributing 2,920 MT of rice, vegetable oil and wheat flour. AIA monetized 80 MT of vegetable oil to cover the administrative costs of its food-for-work program and direct distribution efforts. In addition to Food for Progress commodities, Kyrgyzstan also received \$17.9 million in wheat under a government-to-government agreement through USDA's Section 416(b) Program.

Moldova: In FY 1999, USDA allocated \$9.68 million for the provision of approximately 22,000 MT of food commodities to Moldova, including 20,000 MT under its Section 416(b) Program. Use of these commodities was managed by the American Association of Hematologists of the World for Children (AIA), the Citizens' Network for Foreign Affairs (CNFA), and the International Partnership for Human Development (IPHD). AIA received 3,000 MT of commodities, directly distributing 2,480 MT to health care facilities and monetizing the remaining 520 MT to cover the costs of distribution. CNFA monetized 5,000 MT to fund an agri-business credit program. In addition to receiving 1,954 MT of commodities under the Food For Progress Program, IPHD received 12,000 MT of flour under the Section 416(b) Program, which it either monetized or distributed as part of health care, feeding and agro-environmental programs in southern Moldova.

Russia: In FY 1999, USDA provided approximately \$1.16 billion in food assistance to Russia, including over 1.73 million MT of commodities under USDA's Section 416(b) Program. Of this amount 1.7 million MT of wheat was provided under a government-to-government agreement. The Russian Government monetized 1.3 million MT of this wheat, transferring the proceeds directly to the Russian Pension Fund. An additional 400,000 MT of wheat was distributed to hospitals, orphanages and other institutions serving vulnerable groups. The remaining 35,278 MT of commodities (8,500 MT of dry milk and 26,778 MT of wheat flour) were divided between International Orthodox Christian Charities (IOCC), Project Aid Siberia (PAS), the American Red Cross (ARC), and the Global Jewish Assistance and Relief Network. All commodities received by PVOs were distributed directly to needy individuals and institutions. As part of its food aid package for Russia, USDA also made available more than \$522 million in P.L. 480, Title I funds to purchase U.S. corn, soybean meal, soybeans, beef, rice and poultry. Proceeds from the sale of these commodities were also transferred to the Russian Pension Fund to allow the Russian Government to make overdue payments to pensioners. In addition, seven PVOs administered USDA Food For Progress programs in Russia, directly distributing commodities to Russia's needy: Chamah (7,500 MT) the American Red Cross (11,462 MT), Feed the Children (8,000 MT), the Global Jewish Assistance and Relief Network (16,720 MT), International Orthodox Christian Charities (12,000 MT) and Project Aid Siberia (11,700 MT). The U.S. Poultry and Egg Export Council monetized 26,500 MT of crude vegetable oil to fund restructuring of Russia's broiler poultry industry. Complementing these PVO efforts, USDA provided 15,000 MT of corn and vegetable seed to the Russian Government through the Food For Progress Program.

Tajikistan: In FY 1999, USDA allocated \$25.07 million for the provision of approximately 36,470 metric tons (MT) of food commodities to Tajikistan, including 27,290 MT under its Section 416(b) Program, of which 5,090 MT was directly distributed by Save the Children. Mercy Corps International distributed 4,700 MT of wheat flour and monetized 8,000 MT to establish a farm credit program, the Aga Khan Foundation distributed 4,000 MT of wheat flour and CARE distributed 5,500 MT of wheat flour. In addition, the WFP distributed 500 MT of dry milk provided through USDA's Section 416(b) Program. U.S. PVOs operating in Tajikistan managed the use of 8,680 MT of Food For Progress commodities. Mercy Corps International (MCI) distributed 1,200 MT of rice, 1,400 MT of vegetable oil, and 200 MT of yellow peas to vulnerable groups and participants in food-for-work programs. MCI supported these programs by monetizing 9,000 MT of vegetable oil and wheat flour. In addition, the Aga Khan Foundation directly distributed some 2,900 MT of corn-soy blend (CSB), vegetable oil, wheat flour and dry whole milk. Rounding out the direct distribution efforts were Save the Children, which distributed 2,420 MT of commodities (550 MT of corn-soya milk, 1,340 MT rice and 530 MT vegetable oil), and CARE, which distributed 560 MT of vegetable oil. In addition to PVO-distributed food aid, the Government of Tajikistan also received 2,000 MT of wheat seed under one of USDA's first Food For Progress seed-donation programs.

Turkmenistan: In FY 1999, USDA allocated \$1.23 million for the provision of food commodities to Turkmenistan as part of the American Red Cross's Aral Sea Regional Program: over \$389,000 through USDA's Section 416(b) Program and over \$844,000 through its Food for Progress Program. The beneficiaries of this assistance included 18,000 isolated elderly, orphans, invalids and families with special needs in the Tasauz Region.

Uzbekistan: In FY 1999, USDA allocated \$12.38 million for the provision of food commodities to Uzbekistan, including a \$10 million 30-year concessional loan under USDA's P.L. 480, Title I Program, which the Government of Uzbekistan used to purchase and import 33,350 MT of U.S. soybeans. In addition, under USDA's GSM-102 export credit guarantee program, Uzbekistan used a two-year concessional loan to import 90,000 MT of U.S. soybeans worth \$20 million—this was the first large-scale importation of U.S. soybeans into Uzbekistan. As part of the American Red Cross's (ARC) Aral Sea Regional Program, USDA provided over \$750,000 in commodities through its Section 416(b) Program, which was complemented by the ARC's direct distribution of 4,043 MT of commodities valued at \$2.38 million under USDA's Food for Progress Program. Under the Aral Sea Region Program of the American Red Cross (ARC), Uzbekistan received over \$750,000 in commodities through USDA's Section 416(b) Program, which was complemented by ARC's direct distribution of 4,034 MT of commodities provided under USDA's Food For Progress Program.

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE PROGRAMS

The Humanitarian Programs Division of the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C) is responsible for coordinating and facilitating the delivery of emergency and transitional humanitarian assistance to the NIS countries by over 16 U.S. Government agencies, as well as coordinating U.S. Government humanitarian assistance efforts with those of other donor countries and several international organizations. Since FY 1992, S/NIS/C has expended just over \$276 million to deliver a cumulative total of \$2.53 billion in humanitarian assistance to the 12 NIS countries under Operation Provide Hope. In FY 1999, working closely with numerous U.S. private voluntary organizations (PVOs), contracted freight forwarders, and various government agencies, S/NIS/C expended just under \$19 million to leverage and facilitate the transportation and distribution of almost \$280 million in privately donated and U.S. Defense Department excess humanitarian commodities to targeted groups of needy individuals throughout the NIS. FY 1999 program highlights include the following:

- The continuation and expansion of a cooperative agreement with the U.S. PVO Counterpart to manage a transportation program for small and medium-sized PVOs begun in March 1998 at the urging of the U.S. Congress. This program, which is designed to complement S/NIS/C's large PVO programs and the S/NIS/C-supported USAID Ocean Freight Program, allows smaller PVOs to ship as few as one to two containers targeting specific groups of NIS recipients. This program enabled over 75 small PVOs to deliver over \$10 million in humanitarian cargoes in FY 1999 to all 12 NIS countries.
- The coordination and delivery of a U.S. Defense Department excess-property hospital package worth approximately \$16 million to Ukraine under the U.S. Government's Kharkiv Initiative. This project, which was the thirteenth hospital package delivered to the NIS under Operation Provide Hope since 1992, consisted of two airlift sorties, including a U.S. C-17 aircraft that delivered over \$9 million in high-value pharmaceuticals, as well as approximately 130 surface containers of medical supplies and equipment valued at over \$6.5 million. S/NIS/C provided humanitarian deliveries to 18 hospitals in the Kharkiv Region.
- The continuation of a large grant to the Counterpart Humanitarian Assistance Program (CHAP) to support the screening and delivery of U.S. Defense Department excess property to those in greatest need in nine NIS countries. This program, which transported over \$85 million in Defense Department excess commodities to the NIS in FY 1999, played a critical role in furnishing badly needed emergency commodities to displaced populations in the Zugdidi region of Georgia and the Zakarpatia region of Ukraine, over 18 orphanages in Azerbaijan, and a large number of other needy institutions. Counterpart also played a central role in the above-mentioned delivery of humanitarian medical equipment, supplies and pharmaceuticals under the Kharkiv Initiative.
- The continuation of grants to the United Methodist Committee on Relief (UMCOR) to conduct critical humanitarian clinical work in Armenia, Azerbaijan and Georgia. UMCOR's efforts were especially critical in responding to the needs of refugees and internally displaced persons (IDPs) in Azerbaijan and Georgia, and in supporting the operation of over 65 clinics in Armenia.
- The awarding of multiple grants to the U.S. PVO CitiHope to deliver high-value medical commodities to Armenia, Azerbaijan, Belarus, Kyrgyzstan and Moldova. (CitiHope is one of the few U.S. PVOs working in Belarus.) CitiHope has been particularly effective in furnishing critically needed hepatitis vaccines and oncological medicines for children.

- The awarding of grants to the U.S. PVO Project Hope to deliver critically needed pharmaceuticals to Kyrgyzstan and Tajikistan, and to Ukraine under the Kharkiv Initiative. Project Hope has been delivering humanitarian commodities under Operation Provide Hope since its inception in 1992.
- The continuation of a grant to the U.S. PVO A Call to Serve (ACTS) in support of a \$10 million project to supply critically needed medical commodities to eight separate locations in the mountainous regions of Georgia.
- The renewal of a grant with the PVO International Relief and Development (IRD) to continue its program responding to short-term needs of those displaced by fighting in the Gali region of Georgia.
- The provision of initial grants to the PVO World Council of Hellenes Abroad (SAE), with Counterpart International as a subgrantee, to provide humanitarian medical assistance to mainly Greek populations in Armenia, Georgia and Ukraine.
- The awarding of a grant to the U.S. PVO Heart-to-Heart in support of a multi-million-dollar program to deliver high-value pharmaceuticals to Azerbaijan, Ukraine and Uzbekistan. Heart-to-Heart is partnered with the American Academy and Physicians with Heart. Under this partnership, over 20 medical personnel accompanied humanitarian deliveries to Uzbekistan and conducted training seminars on family practice protocols.
- The allocation of over \$3.5 million to USAID's Ocean Freight Program to facilitate the delivery of humanitarian commodities to the NIS through over 32 U.S. PVOs.
- The continued coordination of demining programs for Azerbaijan, Georgia and Moldova in collaboration with the Humanitarian Demining Program of the State Department's Bureau of Political-Military Affairs.
- The coordination of an additional \$240,000 in USAID funding for flood relief in Kyrgyzstan beyond the over \$1 million provided in FY 1998.
- The coordination of follow-on relief assistance to the flood-ravaged Zakarpattia region of Ukraine, consisting of medical supplies and 80,000 humanitarian daily rations (HDRs) delivered in February 1999.
- The delivery to Armenia of a \$300,000 U.S. Defense Department excess hospital supply and equipment package furnished through the U.S. European Command (EUCOM). This package was provided as a follow-on to a package of hospital supplies and equipment that had been delivered in 1996.
- Work with USAID on focusing social-sector fuel subsidy assistance to Georgia and Moldova for the 1998-99 winter. S/NIS/C awarded a total of \$5 million in grants to the PVOs Counterpart and the International Partnership for International Development (IPHD) to provide fuel subsidies to needy populations in Georgia and Moldova, respectively.
- The coordination of over \$18 million in humanitarian assistance for displaced populations in Azerbaijan through the following PVOs: UMCOR for work in Baku, International Relief and Development (IRD) for work in Azerbaijan's central northern region, Eaton-Hap for work in Sumgait, and Counterpart for assistance to orphanages in Baku.
- Close collaboration with USDA in the planning and implementation of USDA's 3.7 million metric ton humanitarian food aid package for Russia. S/NIS/C facilitated coordination with the U.S. Embassy in Moscow and played a key role in the assessment process begun in September 1999 to determine the need for a follow-on package in FY 2000. In partnership with USDA, S/NIS/C also coordinated the U.S. Government's food aid efforts in Russia with those of the European Union to insure that these efforts were complementary.

OTHER PROGRAMS

THE EURASIA FOUNDATION

The Eurasia Foundation, which was established in 1993 with a major grant from USAID, promotes democratic and market economic reform at the grassroots level in the twelve NIS countries. The Foundation is privately managed and field-driven,

and it has built its reputation on its ability to offer a quick and flexible response to needs identified by NIS organizations and to reach areas often untouched by other Western donors. While its primary tool for providing assistance is an open-door grants program, the Foundation also employs grants competitions to target certain priority areas on a regional basis. Over the past six years, the Foundation has used funding from USAID and other sources to award over 4,400 grants totaling more than \$94.8 million, including 970 grants totaling \$18.2 million in FY 1999. To date, the Foundation has raised more than \$22.8 million in non-U.S.-Government funds, including \$8.3 million in FY 1999 alone. The Foundation has expanded its donor base to include foreign governments, foundations, corporations and private citizens. Major donations in FY 1999 included private gifts from individuals totaling more than \$3.1 million for work in Armenia; approximately \$500,000 from private corporations, including Citigroup, Boeing, Exxon and Texaco; a \$500,000 contribution from the Carnegie Corporation of New York for the Economics Education and Research Consortium (EERC); and a \$528,000 award from the Dutch Government for the Media Viability Fund (MVF).

The Eurasia Foundation is headquartered in Washington, D.C., and has regional offices in Almaty, Kiev, Moscow, Saratov, Tashkent, Tbilisi, Yerevan and Vladivostok. The Foundation's branch office in Baku is being expanded into a regional office serving all of Azerbaijan. The Foundation restructured its offices in Central Asia in 1999, establishing a regional office in Tashkent covering Uzbekistan, Tajikistan and Turkmenistan; and maintaining a regional office in Almaty for Kazakhstan and Kyrgyzstan.

New Strategic Approach

In FY 1999, the Foundation undertook a nine-month process to devise a new and improved conceptual framework. Foundation trustees, worldwide staff, and outside experts conducted more than 40 interviews of grantees, technical assistance providers, and U.S. Government officials. The process yielded a new and improved conceptual framework—emphasizing outcomes rather than activities—that now guides the Foundation's allocation of resources. The new conceptual framework focuses the Foundation's grant-making in three program areas: (1) accelerated development and growth of private enterprise; (2) more effective, responsive and accountable local government; and (3) increased citizen participation in political and economic decision-making. Grants made in these three program areas are intended to promote both democratic institutions and private enterprise simultaneously. This linkage reflects the Foundation's belief that developing market-oriented democracies is an interdependent long-term process.

Accelerated Development and Growth of Private Enterprise: Examples of Foundation grants made in this program area in FY 1999 include the following:

- \$31,049 to the Women's Entrepreneurship Support Foundation of Kaluga Oblast, Russia, to expand a micro-finance program in the Kaluga Region, including training credit officers and providing approximately 120 loans.
- \$22,330 to the Experts and Consultants Intergroup to promote business development through the provision of consulting services to small, technology-based enterprises in Moscow. Approximately 20 small technology firms will receive consulting in various aspects of innovative entrepreneurship and technology commercialization.
- \$31,350 to the Small Enterprise Assistance Funds to write a report on establishing and managing equity investment vehicles for small and medium enterprises in the NIS. The report is expected to help catalyze the creation of new equity funds in the NIS to provide capital to small, private businesses.
- \$5,144 to the Kyrgyz-American Department at Kyrgyz National State University to improve its coverage of management and marketing issues in programs for business and economics students.
- \$157,960 to the Kazakhstan Community Loan Fund in support of micro-enterprise and small-business development through partial capitalization of the largest sustainable micro-credit program in Kazakhstan;
- \$3,725 to the Russian-American Cultural Center of the City of Saratov's Department of Culture for business ethics and English courses, which will teach students and professionals international standards for conducting business; and
- \$34,912 to the SPROS Information and Publishing Fund to improve the quality, quantity and timeliness of consumer-related news available to the public, through the creation of a *Consumer Reports*-style news bulletin service for media. Consumer surveys, analytical articles, and related news—including information on financial markets, pension funds,

and Russia's commercial banking sector—will be published on the Internet and distributed electronically to the media for articles and news reports.

More Effective, Responsive, and Accountable Local Government: The following is an example of Foundation grants made in this program area in FY 1999:

- \$34,530 to the Tashkent State Economics University to support the introduction of a new bachelor's degree program in municipal management and economics. The project aims to analyze established municipal management programs through partnerships with the Urban Institute's field office for the Caucasus and Central Asia, the American University of Armenia, and several Russian universities. A suitable program of study, including new curricula, training programs and a textbook, will then be developed. A retraining program for municipal workers is also planned.

Increased Citizen Participation in Political and Economic Decision-Making: Examples of Foundation grants made in this program area in FY 1999 include the following:

- \$17,820 to the Volgograd Public Fund for Agricultural Collaboration to introduce four pilot arbitration courts in the regions as a means of alternative dispute resolution for agricultural disputes;
- \$35,452 to the "Open World" Sakhalin Support Center for Public Initiatives to offer technical training seminars for non-governmental organizations (NGOs) on management and organizational development, provide information on various aspects of NGO development, offer Internet and e-mail training, and forge links with the public and private sectors;
- \$24,543 to Kazakhstan's private Adilet Higher School of Law to support the establishment of three legal clinics administered by third-year and fourth-year law students. Students will offer low-income individuals and families free consultations in civil, administrative, labor, and juvenile law. This is a pilot project that seeks to expand the participation of law schools in legal clinics throughout the country.
- \$34,564 to the Juridical Center 'IUS' of the Public Foundation for the Support of Legal Reform, to support the first independent arbitration court in Kazakhstan. The project will support the development of an alternative dispute mechanism outside the court system.

Targeted Initiatives

In addition to its grant-making programs, the Foundation currently manages three special initiatives—the Small Business Lending Program, the Economics Education and Research Consortium, and the Media Viability Fund—which are designed to encourage more professional economic policy research, a more rigorous small business sector, and financially independent media, respectively.

Small Business Lending Program (SBLP): The SBLP provides loans to small and medium-sized businesses in Armenia and Ukraine. The program provides capital to the fledgling private sector and intensive, hands-on training to participant bank lenders in credit analysis and collection methodology. In FY 1999, SBLP-Armenia made 20 new loans totaling \$679,794 that created 153 jobs. In FY 1999, SBLP-Ukraine made five new loans totaling \$246,728 that created 73 jobs.

Economics Education and Research Consortium (EERC): The EERC was created to encourage professional policy research and improved economic policy-making. In Ukraine, the EERC supports a master's degree program in economics at the University of Kyiv Mohyla Academy. In Russia, the EERC supports small research grants and a series of complementary activities that help build a professional community of Russian economists. The World Bank awarded the EERC \$250,000 to expand its research network to other NIS countries and selected EERC's Moscow office to be the regional hub for the World Bank's Global Development Network, linking economics institutions worldwide.

Media Viability Fund (MVF): A joint effort with the Soros-funded Media Development Loan Fund, the MVF strengthens independent media in Russia and Ukraine through loans to newspapers for equipment and small grants for technical support and management training. In 1999, the MVF accepted two new client-newspapers in Russia and supported the installation of new rotary presses at two MVF-supported newspapers. In addition, MVF continued to widen its outreach to prospective clients.

Special Projects

Poland-America-Ukraine Cooperative Initiative (PAUCI): In FY 1999, the Foundation managed the Poland-American-Ukraine Cooperative Initiative (PAUCI), a trilateral initiative launched by senior officials of the three participating countries at an October 1998 meeting in Kiev, Ukraine. The focus of the initiative is to intensify cooperation among the participating countries and particularly to share the expertise and experience gained in Poland's free-market economic transition in support of Ukrainian economic reform. PAUCI supports projects designed to promote trilateral cooperation in three priority areas: the implementation of macroeconomic policy reforms, small business development, and local government reform. In FY 1999, the PAUCI Council approved the first tranche of grants for disbursement by the Foundation.

South Caucasus Synergy Program: To help overcome the political and economic obstacles to regional integration, the Eurasia Foundation's South Caucasus office has created a program to ease cross-border tensions that have impeded the democratic development and economic integration of the region. The Synergy Program is designed to facilitate greater contact and cooperation among leading organizations in Armenia, Azerbaijan, and Georgia through support for cross-border projects in areas such as business development, legal reform, civil society building, and public administration. Through its grant-making and communication-enhancement activities, the Synergy Program is catalyzing greater cooperation and accelerating the region's transition to democracy and a market economy. The impetus for the program came from Eurasia Foundation grantee organizations with established track records for progressive, reform-oriented work in their own countries. These organizations had expressed a common desire to increase collaboration to solve mutual problems and promote regional development. At the inaugural Synergy Program conference held in Likani, Georgia, in October 1998, 152 non-governmental organizations (NGOs) from Armenia, Azerbaijan and Georgia exchanged ideas about priority areas for regional action and developed working partnerships to address common concerns. (This was the largest such gathering of representatives of the three South Caucasus countries since the break-up of the Soviet Union.) The Synergy Program aims to build on the accomplishments and experience of these organizations by transferring knowledge and developing their efforts across the region. In December 1998, the Foundation awarded 27 "contact grants" of up to \$2,000 through a grant competition, to provide resources to cross-border initiative groups to develop joint proposals for larger "linkage grant" projects aimed at specific areas of regional reform. To maintain the contacts established at the Likani conference and promote new partnerships, the Synergy Program has also created a permanent forum for communication among the program's participants. Through an electronic listserv, organizations submit information of regional interest which the Foundation compiles and distributes monthly to all program participants in the form of an e-mail digest. The listserv provides a means to initiate dialogue, seek specific types of cooperation and announce events. With priority given to projects involving all three countries, eight grants totaling \$300,000 were awarded in September 1999 in support of projects in the areas of civil rights advocacy, harmonization of accounting standards, legal information, real estate legislation, and radio programming. This program will be expanded in FY 2000.

Implementation Problems

In FY 1999, the Eurasia Foundation uncovered evidence of fraud in its Kiev-based operations, the scope of which is the subject of an ongoing audit and investigation by USAID's Office of the Inspector General. The grant-making activities of the Foundation's Kiev office have been suspended, pending the outcome of the investigation.

PEACE CORPS

Following the collapse of the Soviet Union, the Peace Corps was invited to send volunteers into eight of the NIS countries (Armenia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan) to help facilitate their transition to market-oriented democracies. In responding to these requests, Peace Corps volunteers (PCVs) have helped overcome the historically limited contact between U.S. and NIS communities, and have established and strengthened new bonds of friendship and cross-cultural understanding by addressing issues of mutual concern. PCVs have helped change the perceptions of their NIS host communities and counterparts regarding the United States and the American people, and after returning home from their Peace Corps experience, they have also helped educate Americans about the people of the NIS countries.

Small Business Development Programs: Volunteers in all eight of the Peace Corps' NIS country programs are promoting small-business development. While several of these countries have made considerable strides in adapting to a market-based economic system, economic reforms throughout the NIS have been frustrated by a lack of understanding at the individual and institutional levels regarding the basic assumptions, structures and skills required to operate in a free-market economy. To make matters worse, many of the region's economies continue to suffer greatly from unstable monetary systems, reliance

on antiquated technologies, and inconsistent legal and business practices that discourage local and foreign investment. The need for tangible business skills at the grassroots level—the level at which PCVs focus their activities—is evident in the establishment of numerous local entrepreneurial associations and the widespread demand for free-market business education in NIS secondary schools, universities and institutes. PCVs are working on economic development and business education projects, disseminating information about new economic laws to entrepreneurs and local businesses, and emphasizing the concepts involving use of the information technology as a strategic business tool. PCVs work with a variety of institutions, including business advisory centers, local governments, educational institutions, non-governmental organizations, and local community business associations.

Teaching English as a Foreign Language: English is increasingly viewed as the language of international commerce, tourism, science and technology. The demand for English language training remains strong in the NIS, as it becomes increasingly clear that integration into the global economy will require a cadre of English-speaking professionals who can access the wealth of technical and scientific information available in English. With Russian declining as the primary language studied throughout the region, English language instruction has become a higher priority. Unfortunately, many students lack opportunities for English language study due to a shortage of qualified English teachers, a gap that PCVs aptly fill. With the active support of PCVs, host countries are seeking to improve the overall quality of their education systems by introducing new methods of teaching and by integrating modern technology and materials in the classroom.

Environmental Programs: PCVs throughout the NIS are involved in the important work of environmental education and protection. Among the unfortunate legacies of the Soviet era is a degraded and polluted environment. Large portions of the NIS countries' air, water and land resources are contaminated. Clear-cutting of forests, unwise use of natural resources, and industrial, chemical and nuclear pollution are causes for local, regional and international concern. The economic hardships that have occurred during the transition to market-based economies have placed tremendous pressure on the NIS governments to pursue development policies that maximize short-term economic gains without regard to environmental conservation. Meanwhile, environmental organizations are hindered in their attempts to address these problems by inadequate access to technical information and limited knowledge of potential funding opportunities. PCVs are working to help reverse these trends by helping to raise public awareness of environmental issues and concerns, especially through the school system. Volunteers are also playing a role in protecting national and community parks by improving community access to environmental educational resources, and encouraging local environmental restoration projects. PCVs have conducted environmental programs, including Earth Day-related activities, throughout the region, with thousands of students and community members participating in public awareness campaigns, clean-up projects, tree-planting efforts, and environmental summer camps, which also provide an opportunity to improve English language skills and learn about American culture.

NGO Development Programs: The strengthening of non-governmental organizations (NGOs) is another area in which PCVs are playing a critical role. The government-provided social safety net that existed under the Soviet system, especially pension and health care programs, has collapsed and has not yet been replaced with functioning systems. In lieu of governmental action, a burgeoning civil society has materialized, comprised of an array of non-profit organizations and NGOs. These organizations, still in their infancy and burdened with a historical legacy of dependency, face difficult challenges of structure, direction, and material support. The need for the introduction of fresh management approaches and techniques has become more acute than ever. In this capacity, PCVs have stepped in to support the development of environmental groups, local chambers of commerce, and parent-teacher associations—needs that governments often cannot address.

Health Education Programs: In the last several years, the Peace Corps has increased its programmatic involvement in the health education area in the NIS. Upon gaining independence, the NIS countries inherited a centralized health-care system that was woefully inadequate. Emphasis was placed on curative, rather than preventive, care and the NIS countries' deteriorating health infrastructure, combined with environmental and economic problems, led to an increase in health disorders linked to pollution, and an increase in social afflictions such as drug and alcohol abuse, particularly among youth. As the NIS countries make the transition towards a decentralized, privatized health-care system, PCVs in rural and urban centers are helping to increase community awareness on these and other health issues, and are helping health professionals seek creative methodologies to promote healthy behavior among the populace.

Peace Corps NIS Programs by Country

Armenia

Business Education
Health Education
NGO Development
TEFL*
Small Business Development

Kazakhstan

Business Education
Environmental Education TEFL*
Public Health Advising
TEFL*

Kyrgyzstan

Education
NGO Development

Moldova

Health Education
NGO Development
Small Business Development
TEFL*

Russia (Vladivostok)

Environmental Education
Small Business Development

Russia (Moscow)

Small Business Development
TEFL*

Turkmenistan

Business Education
Community Health Development
TEFL*

Ukraine

Business Education
Environmental Education
NGO Development
Small Business Development
TEFL*

Uzbekistan

Business Education
Community Health Development
TEFL*

* Teaching English as a Foreign Language

Small Project Assistance (SPA) Program

The Peace Corps' SPA Program awards small grants in support of PCV-implemented projects that help strengthen civic organizations, small businesses, educational institutions and NGOs. In addition to the grants, SPA technical assistance funding bolsters the skills of host-country citizens in the areas of community and NGO development and project design and management. Since its inception in FY 1996, the NIS component of the SPA Program has expended over \$1.15 million to help build institutional capacity at the grassroots level. In FY 1999 alone, the SPA Program made over 200 grants totaling almost \$439,000 in the eight participating NIS countries. Grants average from \$2,000 to \$4,000 and further the goal of host-country sustainability by requiring local contributions to the projects. As in the past, the majority of SPA-funded activities in FY 1999 were in the area of education. With SPA support, many schools, NGOs and communities are enhancing their educational resource centers by upgrading libraries and learning laboratories to include computer and audio-visual equipment. SPA-funded computer equipment is providing Internet access, allowing students and teachers to acquire new instructional materials and to network with other learning institutions at both the national and international level. SPA resources also strengthen educational opportunities by supporting construction and renovation of schools and community resource centers. In addition to supporting education, PCVs also used SPA funds to improve health and sanitation, strengthen NGOs, foster environmental education, and contribute to youth development and girls' education. A breakdown of SPA grants by country is provided below:

COUNTRY	FY 1999 SPA Grant Expenditures	FY 1999 Total SPA Expenditures*	Cumulative Expenditures FY 1996-99
Armenia	\$36,128	\$36,128	\$112,954
Kazakhstan	\$58,790	\$63,450	\$129,207
Kyrgyzstan	\$21,462	\$25,562	\$45,634
Moldova	\$50,000	\$50,000	\$114,201
Western Russia	\$84,999	\$84,999	\$192,154
Russian Far East	\$32,484	\$32,484	\$105,480
Turkmenistan	\$19,004	\$20,705	\$109,755
Ukraine	\$99,949	\$99,949	\$279,920
Uzbekistan	\$35,923	\$37,366	\$61,556
TOTAL	\$438,739	\$450,643	\$1,150,861

* Total includes SPA grant funds, as well as funding support for technical assistance.

In FY 1999, 57 percent of SPA grant-funded activities in the NIS region were in the area of education. SPA funds were used to support the construction and renovation of classrooms, libraries and resource centers, as well as to provide various

training opportunities for teachers. With SPA support, community and school groups organized youth camps focusing on leadership, environmental awareness and English-language immersion. SPA grant funds were also used to strengthen educational opportunities through the acquisition of new instructional books, materials and computer equipment. A country-specific summary of FY 1999 SPA grants is provided below:

Armenia: 11 grants were awarded in the areas of education (10 grants) and NGO development (1 grant).

Kazakhstan: 25 grants were awarded in the areas of education (11 grants), health awareness (5 grants), NGO support and income generation (2 grants), and environmental education and eco-tourism (7 grants).

Kyrgyzstan: five grants were awarded in the areas of health, income generation, eco-tourism and environmental education.

Moldova: 15 grants were awarded in the areas of education (6 grants), health resource centers and seminars (6 grants), and environmental education (3 grants).

Western Russia: 61 grants were awarded in education, including several projects involving assistance to the physically disabled (29 grants), health (11 grants), business seminars, income generation and NGO support (13 grants), and youth development (8 grants).

Russian Far East: nine grants were awarded in the areas of education (7 grants) and environment (2 grants).

Turkmenistan: seven grants were awarded in education, primarily to support educational summer camps (5 grants) and health awareness projects (2 grants).

Ukraine: 67 grants were awarded in business (6 grants), education (40 grants), environmental education (17 grants), and health projects reaching out to women and orphans (4 grants).

Uzbekistan: nine grants were awarded to support business and educational community resource centers (5 grants), summer camps (3 grants), and a gymnasium construction project (1 grant).

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 (IFIs) in FY 1999. 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)—have played a key role in the response to the August 1998 Russian financial crisis. Prior to the crisis, Russia's 1998 GDP growth had been expected to average six percent in the region, with average inflation rates in the single digits. However, Russia's continued failure to address its economic problems is threatening these prior gains, and support for reform policies throughout the region is at risk.

International Monetary Fund (IMF)

In the years following the dissolution of the Soviet Union, most NIS countries successfully stabilized their economies with the help of short-term financial assistance and policy advice from the IMF. IMF resources have encouraged 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 have agreed to implement economic reform programs. Disbursed in tranches, IMF loans are conditional on the 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 IFIs, such as the World Bank and EBRD.

In July 1999, the Russian Government and the IMF reached agreement on a new program designed to help Russia resolve the long-standing problems that led to the August 1998 financial crisis. The program was designed to provide some \$4.5 billion in assistance over a 17-month period. Although one \$642 million disbursement was made under this program, subsequent disbursements have been delayed. The IMF, World Bank and EBRD continue to work with the Russian Government to help it put together an appropriate economic program to deal with its economic problems. Russia's continuing economic problems have had a negative impact on neighboring countries, which have experienced downward pressure on

commodity prices, reduced exports to Russia, weakened financial institutions, and other contagion effects including an increase in the cost of capital to both governments and private borrowers. The IFIs have responded with additional program, advice and assistance to the other NIS countries affected by the crisis.

European Bank for Reconstruction and Development (EBRD)

The EBRD was formally established in March 1991 to support market-oriented economic reform and democratic pluralism in Central and Eastern Europe, including the NIS. All 12 NIS countries are EBRD members. The EBRD is unique among multilateral development banks in its private-sector focus and inclusion of political conditionality, which requires beneficiaries to be committed to democracy and the rule of law. According to its charter, the EBRD is required to devote 60 percent of its total resources to private-sector projects within five years of Bank start-up. In 1998, 80 percent of the EBRD's loan commitments were made to the private sector, and cumulatively through 1998, 69 percent.

Russia's August 1998 financial crisis had a profound impact on the EBRD's bottom line. By the end of 1998, the EBRD had taken additional provisions of ECU* 553 million against loans, mainly in the Russian financial sector. The EBRD's operating profits before provisions in 1998 were ECU* 292 million, but after provisions, the EBRD recorded a net loss of ECU* 261 million. The EBRD continues to be guided by two operational priorities, reaffirmed by its Governors at the 1998 Annual Meeting: supporting the transition process and working in all countries in which it is operational. The EBRD's president, Horst Koehler, has publicly stated that the EBRD will continue to work in Russia, despite the country's continuing economic crisis.

Through the end of December 1998 (the most recent available data), the EBRD's cumulative commitments were ECU* 12.0 billion. Of these, ECU* 5.2 billion were to NIS countries, with Russia as the largest borrower. Russia's total cumulative commitments at the end of 1998 were ECU* 2.8 billion. This figure does not include ECU* 300 million in regional projects, a number of which benefit the NIS as well. (The figure for EBRD commitments to regional projects was misstated in the *FY 1998 Annual Report*—these commitments totaled ECU* 200 million in 1997.)

* As of December 31, 1998, one ECU equaled approximately \$1.17.

CUMULATIVE EBRD BOARD COMMITMENTS TO NIS THROUGH 12/31/98 (millions of ECU*)

	<u>VALUE</u>	<u>NUMBER</u>
Armenia	69	3
Azerbaijan	193	9
Belarus	151	7
Georgia	115	9
Kazakhstan	364	7
Kyrgyzstan	136	9
Moldova	149	11
Russia	2,837	87
Tajikistan	13	3
Turkmenistan	126	4
Ukraine	605	24
<u>Uzbekistan</u>	<u>394</u>	<u>12</u>
Total	5,152	185

Totals for individual countries reflect cancellations of previously approved projects and exchange rate variations, and cumulative totals may therefore be lower than in previous years. They represent approvals by the EBRD Board, not actual signed commitments or disbursements, which are lower.

The United States has a 10-percent share in the EBRD and is its largest single shareholder. U.S. contributions to the EBRD for its initial capital contribution were to be paid in five annual installments of \$70 million each. Except for FY 1991, appropriations fell short of the \$70 million, leaving the United States with arrears of more than \$80 million after the five-year period. These arrears were fully cleared in 1998.

In early 1996, the EBRD Board of Governors approved a doubling of the EBRD's total capital (paid-in plus callable) from ECU 10 billion to ECU 20 billion. This increase should put the Bank on a self-sustaining basis, with no future capital increases envisioned. In FY 1998, the United States began payments for the capital increase at a rate of approximately \$36 million per year over eight years.

U.S. CONTRIBUTIONS TO THE EBRD

FY 1991	\$70 million
FY 1992	\$69 million
FY 1993	\$60 million
FY 1994	\$0
FY 1995	\$69 million
FY 1996	\$70 million
FY 1997	\$12 million
FY 1998	\$36 million
<u>FY 1999</u>	<u>\$36 million</u>
TOTAL	\$422 million

International Bank for Reconstruction and Development (IBRD) 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 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, Kyrgyzstan and Moldova are eligible for both IDA and IBRD terms. The other NIS countries are eligible only for IBRD terms.

During the World Bank's FY 1999 (July 1, 1998 through June 30, 1999), the IBRD and IDA approved \$3.3 billion in loans to the NIS. Despite Russia's August 1998 default on government-issued securities, which had been expected to have a significant impact on FY 1999 IBRD and IDA lending throughout the NIS, World Bank commitments to the NIS increased by 10 percent over the previous year. The Bank considers implementation of economic reforms to be more important than ever, and will continue to provide support to countries actively pursuing reform programs.

IBRD AND IDA COMMITMENTS (millions of dollars)

COUNTRY	CUMULATIVE TOTAL (through June 1999)	FY 1999 IDA (6/1/98-6/30/99)	FY 1999 IBRD (6/1/98-6/30/99)
Armenia	535.3	120.6	
Azerbaijan	369.2	79.5	
Belarus	170.2		
Georgia	509.6	136.6	
Kazakhstan	1679.1		175.5
Kyrgyzstan	500.0	61.5	
Moldova	229.8	66.1	
Russia	11721.5		1930.0
Tajikistan	180.3	93.4	
Turkmenistan	89.5		
Ukraine	2821.8		600.0
Uzbekistan	434.0		55.0
TOTAL	19,240.3	557.7	2760.5

U.S.-ISRAEL COOPERATIVE DEVELOPMENT PROGRAM (CDP)

The USAID-supported U.S.-Israel Cooperative Development Program (CDP) was formally established in 1988 to fund the delivery of Israeli technical assistance and training to address a broad range of developing-country assistance requirements for which Israeli expertise was considered particularly well-suited. A special initiative for Central Asia (CDP/CAR) extended program operations to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan in 1992, and to Georgia in 1993.

The CDP provides U.S. Government funds to support the activities of MASHAV, the development assistance unit of the Government of Israel's Ministry of Foreign Affairs, which implements the CDP/CAR Program as part of its foreign assistance portfolio. Proposed activities may be based on requests from the host countries, or identified by MASHAV or USAID. Given Israel's expertise and experience, the principal focus of the program is agriculture and related areas, with an emphasis on soil and water management, intensive livestock husbandry and vegetable production, irrigation systems management, and farm management. The program has been implemented primarily through training courses, consultancies, and demonstration farms. More recently, the CDP has emphasized agricultural economics and the development of sustainable private-sector enterprises. The FY 1999 budget for CDP/CAR was approximately \$1.7 million, of which USAID contributed two thirds and MASHAV contributed one third.

In the first three quarters of FY 1999, a total of 92 USAID-funded trainees attended five CDP/CAR agricultural production training courses in Israel. During that same period, eight in-country agricultural, business, and health management training courses were held throughout the region. In addition, 20 short-term consultancies were supported in the areas of agriculture (including dairy and aquaculture), medical practices and health management, social economic development, and tourism. USAID also supported the long-term assignments of seven agricultural experts on demonstration farms.

CDP/CAR's emphasis on dairy production continued in FY 1999. This included the adoption by local farmers of CDP demonstration farm practices, such as improved dairy cow diets using locally available inputs, an emphasis on high-value products with local demand such as cheeses and yogurts, and privately owned dairy processing units serving groups of independent individual farmers, as an alternative to reliance on state-run enterprises. Field crops and irrigation management practices continued to be emphasized at other demonstration sites.

In keeping with the program's increased emphasis on privatization and the economic feasibility of agricultural technologies, the CDP operated three Agribusiness Centers in the region (in Kazakhstan, Kyrgyzstan and Georgia), staffing them with visiting Israeli experts and local professional coordinators who assisted private farmers with their business plans and provided them with information on markets and technologies.

In FY 2000, the block grant of USAID core funding of CDP/MASHAV activities in the region is being phased out in favor of a new partnership between MASHAV and USAID. MASHAV will develop new proposals for activities directly with the USAID Regional Mission in Central Asia.

U.S.-ISRAEL COOPERATIVE DEVELOPMENT RESEARCH PROGRAM (CDR)

The USAID-supported U.S.-Israel Cooperative Development Research (CDR) Program was established in 1985 to support joint applied research projects involving Israeli scientists and their counterparts in developing countries, allowing them to work on significant problems facing the developing countries. In 1992, a special initiative extended the program to Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan and Georgia. This initiative focuses on research in arid-land agriculture—an area of Israeli strength and particular need in Central Asia—and includes projects in water management and environmental protection as well as agronomy and livestock management. Like the rest of the CDR Program, this initiative in Central Asia and Georgia (CDR/CAR) does not stress the economic development of Israel, but emphasizes areas in which Israeli research interests and expertise are particularly valuable to the target countries.

The CDR/CAR Program has the following objectives: (1) to provide limited assistance to maintain the scientific communities in Central Asia and Georgia; (2) to provide financial and technical assistance for research directed toward basic needs of the people in the region; (3) to expose the NIS scientific community to the Western-style system of competitive institutional grants; (4) to utilize Israeli expertise and practical scientific methods, primarily in the management of science and technology in improving agriculture; (5) to establish multiple independent links between the people of this historically Muslim region and Israel; and (6) to link the formerly isolated scientific community of the region with the world scientific community.

Since 1993, CDR/CAR has awarded over 60 research grants with a maximum size of \$150,000, not including the considerable matching funds provided by Israeli research institutions. Projects are chosen from proposals jointly authored by Israeli and host-country scientists, and selections are made by USAID on the advice of peer review panels composed of U.S. scientists. American scientists are eligible to participate as funded third partners.

A number of technical achievements were reported in FY 1999, including the elucidation of plant adaptation to stress for the design of transgenic stress-tolerant cultivars, practices for the control of field dodder, development of a landscape-phytoindication method for stony land sheet erosion using geographic information systems (GIS), the estimation of the most favorable conditions for developing runoff irrigation in Uzbekistan, development of soil and water management practices to prevent negative effects resulting from irrigation with marginal water, development of a strategy of engineering resistance to potato virus Y that may be applicable to other viral plant diseases, production of a preliminary quantitative trait locus (QTL) map for drought resistance in a desert ecotype of wild barley in Kazakhstan, development of a persistent photo-stabilized B.t. preparation for controlling economically important pests in Georgia, development of a safe but potent vaccine against Central Asian theileriosis, development of a method for isolation from barley leaves of the organism that causes barley scald disease in the region, and the demonstration that two selected species of *Haloxylon* regenerate well in Turkmenistan after heavy grazing, and that more shrubs may be planted per unit area when grazed.

In addition to these technical discoveries, the CDR Program has provided valuable links to otherwise isolated scientific communities in Central Asia and Georgia. It has funded research equipment, international travel, periodicals, and access to electronic mail. The training of students from the region, both in their home countries and in Israel, is a key component of nearly every CDR grant. The program has provided many institutions with their first exposure to a competitive, Western-style research grant, also providing an impetus for local banks to establish accounts and transfer procedures more consistent with modern practices. The FY 1999 budget for CDR/CAR was \$1.5 million. No significant changes are envisioned in the program for FY 2000.

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 non-governmental 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 (AAU). 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 and East European fields.

The following is a list of FY 1999 Title VIII grant recipients for NIS-related projects, including the amounts and purposes of their awards:

American Councils on International Education / American Councils of Teachers of Russian (ACIE/ACTR)

- Grant: \$430,000 (\$355,000 NIS; \$75,000 Eastern Europe)
- Purpose: To support advanced Russian language and area studies, NIS language programs, Central and East European languages and research, the Special Research Initiative, the Combined Language and Research Program, Junior Faculty Research Program, and policy forums.

University of Illinois Urbana-Champaign

- Grant: \$125,000 (\$95,000 NIS; \$30,000 Eastern Europe)

- Purpose: To support the Summer Research Laboratory, which provides dormitory housing and access to the University's library for advanced research, and the Slavic Reference Service, which locates materials unavailable through regular interlibrary loan.

Institute of International Education (IIE)

- Grant: \$120,000 (\$70,000 NIS; \$50,000 Eastern Europe)
- Purpose: To support Professional Development Fellowships for young professionals in fields related to public service and civil policy in the NIS and Eastern Europe.

International Research and Exchanges Board (IREX)

- Grant: \$840,000 (\$530,000 NIS; \$310,000 Eastern Europe)
- Purpose: To support its programs for individual advanced research opportunities, short-term travel grants, dissemination activities, and policy forums.

National Academy of Sciences (NAS)

- Grant: \$70,000 (\$40,000 NIS; \$30,000 Eastern Europe)
- Purpose: To support a Governance Program with a strong focus on technology and industrial economics.

National Council for Eurasian and East European Research

- Grant: \$1,300,000 (\$990,000 NIS; \$310,000 Eastern Europe)
- Purpose: To support the Research Contract and Fellowship Grant Programs for post-doctoral research, Policy Research Fellowships in the NIS and East Europe, and the Ed A. Hewett Fellowship Program to allow a scholar to work on a research project for a year while serving in a U.S. Government agency.

Social Science Research Council

- Grant: \$775,480 (\$750,356 NIS; \$25,124 Eastern Europe)
- Purpose: To support dissertation fellowships, advanced graduate fellowships, U.S.-based language training, and post-doctoral fellowships.

Woodrow Wilson Center for International Scholars

- Grant: \$735,000 (\$470,000 NIS; \$265,000 Eastern Europe)
- Purpose: To support research and short-term scholar programs, internships, meetings, and outreach publications for 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 Armenian Government's proclaimed aim is to build a parliamentary democracy based on rule of law and civil society. However, progress toward democracy and the rule of law remains slow and incremental. The Armenian constitution was adopted by referendum in July 1995, coincident with the election of a transitional 190-member legislature. The parliamentary elections and constitutional referendum were called "generally free but not fair" by international observers. Presidential elections were held in 1996 and 1998. Fraud in the 1996 vote tabulation process allowed then-incumbent President Ter-Petrosian to avoid a run-off election he might have lost. In February 1998 Ter-Petrosian was forced to resign. Current President Kocharian took office in April 1998, following elections that were marred by numerous irregularities, including block voting by the military and ballot box stuffing, which cast doubt on the voting and vote-counting processes. Nevertheless, the 1998 elections were an improvement over those of 1996 in that a pluralistic group of candidates was able to campaign more freely, and with access to the media. Elections in May 1999 for a restructured 131-member parliament demonstrated some areas of improvement over previous elections as well as continuing serious shortcomings. Improvements included the authorities' respect for freedom of speech and assembly, parties' and candidates' ability to enter the race and campaign freely, the neutrality of media coverage, and the functioning of domestic election observers. Notable shortcomings were the poor state of voter lists (which kept many people from casting ballots), problems with military voting, insufficiently independent election commissions, and problems with the tabulation and publication of vote counts. On October 27, 1999, five apparent political dissidents murdered the prime minister, speaker of parliament, and six other officials in the parliament chamber. Selection of successors followed constitutional forms, but uncertainty and instability remain prominent features of the political landscape.

Fourteen laws designed to improve the legal and judicial systems took effect in January 1999 but have not completely remedied judicial shortcomings. Even though the prosecutors' supervision of civil cases has been significantly reduced, prosecutors still greatly overshadow defense lawyers and judges during trials. In addition, concerns remain warranted regarding the independence of the judiciary, the functioning of the legal system, and police treatment of detainees. The beating of pretrial detainees remains a routine part of criminal investigations. The government has not conducted investigations of abuse by security forces, except in rare cases where death has resulted and under pressure from human rights groups.

The constitution provides for freedom of the press, but the government exercises some restrictions on the media. Official censorship is not practiced, but journalists commonly engage in self-censorship to avoid problems with authorities. Many subjects considered sensitive for national security reasons receive circumscribed coverage. The government maintains the dominant role in nationwide television and radio broadcasting. The president's office continues to influence state television news coverage. Nonetheless, the climate of media freedom is improving. Non-governmental media often criticize the country's leaders and government policies. Independent local newspapers and radio and television stations are increasing in number. Public demonstrations occur frequently and usually without government interference.

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 has succeeded in privatizing almost all agricultural land and housing stock. An aggressive voucher privatization program resulted in privatization of most of the Republic's small enterprises and approximately 70 percent of the medium and large enterprises. Privatization slowed during 1999 due to a difficult transition from voucher to cash privatization at the end of 1998. Some negative political fallout from several high-profile privatizations in late 1998 contributed to the government's reluctance to undertake further privatization. By the end of 1999, however, the government appeared to have generated a renewed political will to continue privatization. Two government decrees that will remove most remaining obstacles to the privatization process are expected to be implemented by the end of the year. Several hundred medium-sized to large state-owned enterprises, including many strategic enterprises, will enter the privatization pipeline. Energy sector privatization also is moving forward, with privatization of the four largest distribution companies anticipated by mid-2000.

Armenia is working to establish legal and institutional frameworks that will facilitate further economic development and foster an environment attractive to foreign investment. A liberal foreign investment law was approved in 1994. Armenia has concluded a bilateral trade agreement with the United States (which enables it to receive NTR status and incorporates intellectual property rights provisions), an OPIC agreement, and a bilateral investment treaty with the United States. Armenia is laying the legislative and administrative foundations for its entry into the WTO. Armenia has made substantial progress in negotiations to join the WTO, has assured the trade body it is working to enact and implement WTO-compliant legislation, and is negotiating outstanding differences on market access offers in goods and services and on agricultural supports. 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 Armenian constitution, adopted in 1995, contains broad human rights protections, but implementation has been inconsistent and problems persist in several important areas. The constitution grants national minorities the right to preserve their cultural traditions and languages, and current law specifically provides linguistic minorities the right to publish and study in their native tongues. Armenia has ratified important international human rights treaties and shown a willingness to engage in international and bilateral discussions regarding human rights.

The constitution provides for the right to practice the religion of one's choice, but current laws grant special status to the Armenian Apostolic Church. All religious denominations and organizations must register with the state Council on Religious Affairs, and only the Armenian Apostolic Church may proselytize. Funding from sources outside Armenia is prohibited for non-apostolic faiths. As of November 1999, registered religious groups had reported neither adverse consequences from the law nor denial of re-registration under the amended law. The Religious Council, however, does not allow Jehovah's Witnesses to register as a religious denomination, claiming that illegal proselytism is integral to their activities. As of November 1999, eleven Jehovah's Witnesses were in jail charged with draft evasion or desertion, and about 40 were in hiding from the draft.

The constitution provides for freedom of foreign travel and emigration, and these rights are generally recognized in practice. However, the government can deny passports to persons possessing state secrets, to those subject to military service, and to those whose relatives have made financial claims against them. A 1997 law mandates that representatives of religious organizations other than the Armenian Apostolic Church must obtain prior permission from the State Council on Religious Affairs to travel abroad. This requirement has not been enforced since the initial year of its enactment.

Discrimination based on race, sex, religion, disability, language, or social status is prohibited by the Constitution, but cultural and economic factors prevent women, persons with disabilities, and some ethnic and religious minorities from participating fully in public life.

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 Armenia has failed to observe international law and obligations, as well as OSCE commitments, in this respect as a result of the continuing conflict over Nagorno-Karabakh. Because of the conflict, Armenian military forces occupy some areas of the territory of Azerbaijan. However, the Government of Armenia continues to observe the cease-fire that has been in effect since May 1994, and participates actively as a party within the OSCE Minsk Process, an initiative

aimed at resolving the conflict over Nagorno-Karabakh. In addition, since April 1999 President Kocharian and Azerbaijani President Aliyev have engaged in bilateral talks whose goal is a negotiated settlement of the conflict. Their foreign and defense ministers also have met several times to discuss aspects of a settlement. Armenia released several Azerbaijani POWs during 1999. Armenia also agreed to host an OSCE office in Yerevan, which is due to open in early 2000.

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. The Government of Armenia continues its participation in the OSCE peace process. Direct dialogue between the Armenian and Azerbaijani Governments, suspended in late 1996, resumed in the spring of 1999. This dialogue and the Minsk Group process continue to hold the promise of achieving an agreed resolution.

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 Armenian parliament ratified the CFE Treaty in October 1992 and the 1996 CFE flank agreement in May 1996. Armenia participated actively in negotiations to adapt the Treaty and, along with representatives of the other 29 CFE states, signed the Adapted CFE Treaty at the Istanbul Summit in 1999. Armenia has provided data on equipment as required by the Treaty, although at times concerns have arisen about the completeness of this data. Armenia also has hosted on-site inspections, as provided for in the Treaty, and participates in the CFE Joint Consultative Group, the Treaty's implementation body, which meets in Vienna. Armenian compliance with CFE has been uneven. In addition to Armenia's longstanding failure to properly notify or carry out reductions required by the Treaty, there have been technical concerns about the completeness of Armenia's data on equipment holdings and the fact that Armenia's equipment holdings exceed Treaty limits in AIFV/HACV sub-category of ACVs. Also of concern are: evidence that Armenia may have failed to notify increases in unit holdings involving CFE Treaty limited equipment transferred from Russia, the fact that Armenia continues to station troops and CFE limited equipment on the territory of Azerbaijan without Azerbaijani permission, evidence that Armenia made a late notification of the entry into service of multiple rocket launchers purchased from China, and reports that Armenia has transferred, or supported the transfer of, Russian and possibly Chinese TLE-type equipment to separatist forces in Nagorno-Karabakh. Both Armenia and Azerbaijan have maintained that it is impossible for them to meet certain Treaty obligations because of security concerns associated with the Nagorno-Karabakh conflict. This said, Armenia is engaged in discussions both in the CFE context and in the context of the Minsk Group process that may help to address certain of these issues.

Armenia acceded to the NPT as a non-nuclear-weapons state on July 15, 1993. The United States and other Western governments have discussed efforts to establish effective export control systems with Armenia. Armenia is a State Party to the Chemical Weapons Convention (CWC) and the Biological Weapons Convention (BWC), which seek to eliminate chemical and biological weapons, respectively.

We have received occasional reports of transfers potentially related to proliferation of weapons of mass destruction involving 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 in the process of establishing a WMD-related export control system derived from international standards and has cooperated with the U.S. and others toward this goal.

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 estab-

lish 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.

Armenia recently joined Georgia in signing the charter for and establishing the Regional Environmental Center in the Caucasus, located in Tbilisi, Georgia. The United States and the European Union are supporting and co-financing the establishment of this independent, non-profit, and non-political organization, the mission of which will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

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 that have committed acts of international terrorism or otherwise support international terrorism. Armenia is a party to two of the twelve international counter-terrorism conventions.

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 former Soviet Union (FSU). In December 1991, Russia and seven other republics, including Armenia, 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 under which Russia agreed to assume Armenia's share of the former Soviet Union's foreign debts in exchange for Armenia's share of the FSU's external assets.

Please see Section 498A(a)(9) of the Russia section 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. - Russia Joint Commission on POWs/MIAs, which was established in March 1992. The U.S. side of the Commission visited Armenia in August 1993 to expand contacts with Armenian officials and to visit the crash site of a C-130 that 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 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 information indicating that the Government of Armenia 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

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"?

No. We periodically receive reports potentially related to Armenian transfers of material, equipment or technology that could contribute to the ability of countries to manufacture weapons of mass destruction. We carefully review these reports 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 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information from which to conclude that the Government of Armenia is 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 Armenia "is providing assistance for, or engaging in non-market-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?"

We do not believe Armenia is providing assistance for, or engaging in non-market-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."

Although significant problems remain, Azerbaijan made some progress in 1999 towards the creation of a democratic system of government. The president's party continues to dominate the government, and the 125-member parliament is so dominated by the president's party and affiliated parties that it cannot enact legislation independent from the government. Judges do not function independently of the executive branch. The 1998 Presidential elections, while an improvement over elections in 1993 and 1995, did not meet international standards due to an overall lack of transparency and irregularities in the run-up to the elections and during the elections (vote counting). In the period following the 1998 election, the Central Election Commission failed to seriously consider complaints by opposition parties about the conduct and results of the election. Parliamentary by-elections held in the past two years were marked by multiple claims of fraud.

The government held local elections in December 1999 for the first time in the country's history, albeit two years after the constitutionally mandated deadline. Based on the observations of our embassy in Baku and of other independent observers, these elections did not meet internationally recognized standards. The selection process for territorial and precinct election commissions was marred by irregularities that favored the government over the opposition. The registration process for candidates, controlled by those very election commissions, was marred by similar widespread irregularities that strongly disadvantaged opposition parties. We have also received reports of ballot stuffing and other election-day irregularities. While the government's conduct of the elections was flawed throughout, these elections and the municipal structures they create are potentially an important step forward in Azerbaijan's democratization. The government has committed itself to incorporate changes suggested by ODIHR to the law on the Central Election Commission and to work with the OSCE to meet democratic standards for the 2000 parliamentary elections.

An active and independent media exists and press censorship was officially abolished in 1998, but periodic government harassment continues. An active political opposition also exists, although government efforts to hinder the opposition - including the holding of political prisoners - continue to impede the transition to democracy. There are over 30 political parties registered, some of which support the president's party. However, the government continues to deny registration to several other opposition parties.

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 its brief history as an independent country, Azerbaijan has made considerable progress in the transition to a market economy. Outdated Soviet laws have been replaced with modern legislation to encourage foreign investment, to protect intellectual property, to permit bankruptcies, and to rationalize the government's revenue collection policies. The government has maintained strict fiscal and monetary policies in keeping with the conditionality requirements under its agreement with the International Monetary Fund. Notably, inflation has been halted and multiple exchange rates unified. Agriculture, the country's second most productive sector, employs 30 percent of the workforce, 98 percent of agricultural land is in private hands. Over 25,000 enterprises have been privatized since the inception of the privatization program in 1996. As a result, the private sector's share of GDP is over 55 percent. The parliament is expected to approve legislation for the second phase of privatization in early 2000. In addition, the government has demonstrated a new openness in dealing with the international business community foreign investors and a new determination to make Azerbaijan more attractive and user-friendly for foreign investors.

Azerbaijan is a member of the IBRD, EBRD, IMF and the Asian Development Bank. The U.S. Government's business promotion agencies, TDA, EXIM, and OPIC, are active in Azerbaijan. Azerbaijan enjoys Normal Trade Relations (formerly MFN) with the United States under a bilateral trade agreement and is actively seeking WTO membership. Azerbaijan's IMF program was successfully concluded at the end of its scheduled three-year term in late 1999. Under this program, Azerbaijan received \$211 million to strengthen structural reform efforts. With GDP growth of 10 percent and 5 percent respectively in 1998 and 1999 and 8 percent forecast for 2000, Azerbaijan is on course for a period of sustained economic growth. A new IMF program will be negotiated in early 2000.

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 right of religious freedom is enshrined in the Azerbaijani constitution and its laws. Traditional religious groups, including Muslims, Russian Orthodox, and Jews are respected. However, harassment of other religious groups by lower-level officials is frequent. In response to USG protest of this harassment, President Aliyev publicly reaffirmed the government's commitment to religious freedom in November 1999, and the government has responded appropriately in most cases to redress individual cases of violations by lower-level officials.

The government respects the rights of freedom of emigration. The remaining Armenian population in Azerbaijan is approximately 10-20,000, mostly people of mixed descent or those involved in mixed marriages. The government does not have a policy of discrimination against Armenians, who are free to travel. However, there are strong anti-Armenian feelings among the general population, and these animosities have been exacerbated by the conflict over Nagorno-Karabakh. In addition, low-level officials seeking bribes often harass members of minorities wishing to emigrate.

Police detain and arrest persons without charges. There are approximately 50 people under arrest for politically motivated charges. There are credible reports that the police practice of beating prisoners during arrest, interrogation, and pre-trial detention is widespread. In most instances, the government took no action to punish abusers, although perpetrators were prosecuted in a handful of cases.

The government continued to ban large-scale opposition demonstrations throughout 1999. However, the government did allow smaller-scale demonstrations (with less than 50 participants) on a regular basis, and opposition parties were allowed to hold some political party gatherings. Nonetheless, authorities frequently prevented opposition parties from conducting many indoor meetings as well as outdoor gatherings.

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."

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 Nagorno-Karabakh conflict continues, and both sides have committed violations of international humanitarian laws. The parties to the conflict continue to observe a cease-fire that has been in effect since May 1994. In 1999, the Presidents of Azerbaijan and Armenia engaged in a series of private meetings in an effort to resolve their differences and help bring about a resolution of the conflict. As a direct result of these meetings, the parties have taken measures to strengthen the 1994 cease-fire and have continued to release persons being held in connection with the conflict. The Government of Azerbaijan now claims to have released all Armenian prisoners of war.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The OSCE created the Minsk Group in the spring of 1992 as the forum for a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. The Government of Azerbaijan participates fully in the OSCE peace process. In 1999, the Presidents of Azerbaijan and Armenia engaged in a series of private meetings in an effort to resolve their differences and help bring about a resolution of the conflict. Both Azerbaijan and Armenia have also expressed a commitment to continue working with the OSCE Minsk Group Co-Chairs in achieving a resolution of the 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."

Azerbaijan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Azerbaijani actions to support this commitment include ratification of the Nuclear Non-Proliferation Treaty. Azerbaijan was one of the original signatories of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction, but has not yet ratified the Convention. Azerbaijan has not signed the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxic Weapons and on Their Destruction.

The Conventional Armed Forces in Europe Treaty was ratified by Azerbaijan's parliament in July 1992. Azerbaijan ratified the 1996 CFE flank agreement in 1997, and has participated actively in negotiations to adapt the CFE Treaty, which was signed by Azerbaijan and representatives of all 30 CFE States at the OSCE Istanbul Summit in 1999. Azerbaijan has provided data on equipment as required by the Treaty, but announced in 1999 a unilateral suspension of certain notification provisions, although such a suspension is not allowed under CFE. Azerbaijan has also hosted on-site inspections as provided for in the Treaty, and participates in the CFE Joint Consultative Group, the Treaty's implementation body, which meets in Vienna. Azerbaijan's compliance with CFE has been uneven. Although Azerbaijan has not properly completed reductions required by the Treaty, it does continue to periodically notify and carry out reduction events. Azerbaijan continues to insist that it cannot complete required reductions -- or fulfill all Treaty obligations -- as long as the dispute over Nagorno-Karabakh continues. Until late in 1999, Azerbaijan had significant overages above its Treaty limits in equipment, but by a series of notifications of reduction events, and decommissioning, Azerbaijan has significantly reduced these overages. Azerbaijan is engaged in discussions both in the CFE context and in the context of the Minsk process, which may help lay the basis for improved Treaty compliance.

Azerbaijan has submitted Confidence and Security Building Measures (CSBM) annual data declaration for 1997 and has willingly undergone CSBM inspections in accordance with the Vienna Document 1994.

We do not believe that Azerbaijan has engaged in the proliferation of nuclear, chemical, or biological weapons, their delivery systems, or related technology. Azerbaijan has made progress in establishing a system of nonproliferation export controls and has actively moved to thwart transit of controlled items to countries of concern. Azerbaijan is not a significant exporter of conventional weapons. In September, 1999 the USG and the Government of Azerbaijan signed an agreement "Concerning Cooperation in the Area of Counterproliferation of Weapons of Mass Destruction and Defense Activities." Azerbaijan ratified the CTBT on February 2, 1999 as a sign of the Azerbaijani Government's commitment to nonproliferation.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Soviet-era oil development, air and water pollution, and urban industrial pressure on the land have created serious environmental challenges. Deterioration and erosion of soil and salination of agricultural lands contribute to extensive soil loss. Poor air and water quality contribute to increasing public health risks. The rising level of the Caspian Sea and the prospective development of Caspian energy resources have brought serious new environmental challenges. Azerbaijan acceded to the Convention on International Trade in Endangered Species on November 23, 1998.

Legislation to address environmental problems and the use of natural resources, based on modern Western practice, has been enacted, but funding remains inadequate to meet the breadth of existing problems. The activities of international consortia currently drilling for oil and gas in the Caspian Sea are fully consistent with Western environmental standards.

The government draws attention to environmental issues through its support of an annual International Environmental Congress that brings together government officials, scientists, politicians, international oil companies, and private organizations to address Caspian region development issues. Azerbaijan also participates in the Caspian Environmental Program, a five-nation project supported by UNDP and the IBRD. Under this project, Azerbaijan has established a pollution abatement research center and a database management center to help the littoral states protect the sensitive Caspian Sea environment.

U.S. Government assistance to the environmental sector has been through U.S. PVOs and NGOs. USAID has increased its

funding significantly. In May 1999, it funded a multi-country Caspian Basin meeting to address the oil spill possibility and other environmental concerns. USAID has also funded activities to increase the educational awareness of environmental problems all over Azerbaijan. It will be conducting a survey in the highly polluted city of Sumgayit in 2000 to determine what possibilities exist for increased participation in helping to ameliorate the consequences of highly concentrated urban pollution.

Azerbaijan has expressed an interest in participating in the recently established Regional Environmental Center in the Caucasus, joining co-founders Georgia and Armenia. The United States and the European Union are supporting and co-financing the establishment of this independent, non-profit, and non-political organization, the mission of which will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

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 that have committed acts of international terrorism or otherwise support international terrorism. Although the Russian Government has implied that Azerbaijan allowed its territory to be used for support to terrorists in Chechnya, the Azerbaijan Government actively opposes terrorism and has taken steps to prevent it. Azerbaijan is not a party to any of the twelve international counter-terrorism conventions.

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 (MOU) declaring themselves jointly and severally liable for the foreign debts of the Soviet Union (Azerbaijan did not sign the MOU). In December 1991, Russia and seven other republics (not including Azerbaijan) 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 (FSU). In September 1993, Russia signed an agreement with Azerbaijan under which Russia agreed to assume Azerbaijan's share of the debts of the FSU in exchange for Azerbaijan's share of the FSU's external assets.

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 March 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, we do not believe that the Government of Azerbaijan is engaged in a pattern of gross violations of human rights or of international law.

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 such determinations were made with respect to Azerbaijan in 1999.

Section 498A(b)(4): Is the Government of Azerbaijan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No.

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 non-market-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?"

We do not believe that Azerbaijan is providing assistance for, or engaging in non-market-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 provide that, "In providing assistance under (Chapter 11 of the FSA) for the government of any independent state of the former Soviet Union, 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."

Belarus moved farther away from a democratic, rule-of-law based system in 1999. Since his election as President in 1994, Aleksandr Lukashenko has steadily constructed an authoritarian regime concentrating all power in his own hands. In November 1996, Lukashenko engineered a "referendum" to amend the constitution. The Belarusian Constitutional Court ruled the referendum unconstitutional. The flawed and undemocratic political process surrounding it was publicly condemned by the United States, the European Union, the Troika of the Organization on Security and Cooperation in Europe (OSCE), and the Parliamentary Assembly of the Council of Europe. After the referendum, Lukashenko replaced the sitting parliament with a handpicked bicameral legislature based on the revised constitution. This legislature is not recognized by the United States, the European Union, the OSCE Parliamentary Assembly or the Council of Europe. In addition, Lukashenko augmented his powers at the expense of the legislature and judiciary by unilaterally extending his five-year term by an additional two years. Lukashenko's legal term in office ended on July 16, 1999, but he has yet to step down. He repressed an attempt by the opposition in May 1999 to carry out presidential elections in accord with the legitimate 1994 constitution.

Conditions for open political dialogue and for free and fair elections ceased to exist in Belarus in 1996. Government pressure on the opposition grew in 1999, as two prominent opposition activists, Victor Gonchar and Yuri Zakharenko disappeared; former Prime Minister Mikhail Chigir was held on politically-motivated charges for nine months; and the authorities violently suppressed the peaceful "Freedom March" on October 17, resulting in hundreds of injuries. The number of politically motivated arrests increased in 1999, and security forces were implicated in the beating of political opponents, including minors, independent journalists, detainees, and prisoners. The right of peaceful public assembly is severely restricted or often denied outright; public demonstrators are frequently detained, beaten, fined and intimidated. The government heavily controls the national media and restricts and harasses the independent media. The Lukashenko regime has also stepped up more subtle forms of pressure, including imposition of arbitrary taxes or fines, arbitrary arrest, re-registration, cancellation of leases and/or eviction from leased premises, administrative restrictions, and manipulation of the judicial process to intimidate and harass the opposition, NGOs and independent business people.

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 Belarus moved farther away from a market economy by increasing harassment of the limited private business that exists in the country and by enacting a presidential decree that allows for the expropriation, without due process, of the property of any company or person who "causes losses to the state". Belarus again failed to implement the reforms agreed to with the International Monetary Fund in September 1995. Privatization has been limited to small enterprises, and even here some believe that this has mainly benefited the nomenclature. Massive state credits at negative interest rates to targeted sectors of the economy, coupled with price and currency controls, led to a further collapse of the Belarusian ruble in 1999 and steady devaluation, despite artificial exchange rates, continues. The IMF and the World Bank have issued no new credits for Belarus this year. The World Bank has approved no new lending to Belarus since 1995 and has closed its office in Belarus. The European Bank for Reconstruction and Development is not pursuing any public sector projects in Belarus. In 1997, the Overseas Private Investment Corporation (OPIC) paid its first claim in the NIS in Belarus, the result of "creeping expropriation." OPIC has ceased insuring businesses in Belarus demanding that the Government of Belarus adequately address the issue of compensation.

A 1993 trade agreement between Belarus and the United States provides reciprocal Normal Trade Relations (formerly MFN) benefits and contains intellectual property rights provisions. A Bilateral Investment Treaty (BIT) was ratified by the Belarusian parliament in October 1995 and received the advice and consent of the U.S. Senate in June 1996. But as the political situation deteriorated in late 1996, the United States decided to delay indefinitely its entry into force. EXIM and TDA activity in Belarus remain suspended due to the poor investment climate.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The Belarusian Government's human rights record deteriorated significantly during 1999, particularly regarding respect for civil liberties. Restrictions on freedoms of speech, press and peaceful assembly increased, and the government did not respect freedom of association. Two major opposition activists, Victor Gonchar and Yuri Zakharenko, disappeared without a trace. In July 1999, Semyon Sharetsky, the speaker of the legitimate parliament dismissed by Lukashenko in 1996, was forced out of fear for his life to seek refuge in Lithuania. Prolonged detention on political grounds and delays in trials are common. The government violently suppressed the peaceful "Freedom March" on October 17. The security services infringe the privacy rights of citizens and closely monitor the activities of opposition politicians and other segments of the population. Government security agents frequently harass human rights advocates. Worker rights continue to be restricted by government authorities, who have stepped up the harassment of independent trade unions over the past year.

According to official data, the state did not deny any citizens permission to emigrate in 1999. Ethnic tensions do not appear to trouble Belarus.

The constitution provides for freedom of religion. However, the government restricts this right in practice. Citizens are not prohibited from proselytizing, but foreign missionaries may not engage in religious activities outside of the institutions that invited them. Only religious organizations already registered by the state may invite foreign clergy. The Catholic Church has experienced difficulties in bringing into clergy Belarus from abroad to meet the needs of its followers and some priests and nuns have been harassed. Cases of apparent discrimination have been called to the attention of religious constituents in the U.S. and human rights groups. The government accords preferential treatment to the part of the Orthodox Church loyal to the Moscow Patriarch, while harassing those who seek autocephalous status for the Belarusian Orthodox Church.

Respect for the rights of minorities appears to have deteriorated in 1999. The government has begun to harass the Union of Poles in Belarus and closed a newspaper printed by the Ukrainian minority. Societal anti-Semitism exists but is not usually manifested openly, although senior government officials and the state media have occasionally used coded anti-Semitism in attacking political opponents. Despite these difficulties, several local Jewish communities have successfully reclaimed synagogues and other properties.

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."

As a result of the Belarusian Government's failure to adhere to its human rights commitments under the Helsinki Final Act, the OSCE undertook to establish an Advisory and Monitoring Group (AMG) in Minsk to assist the Government of Belarus in fulfilling its human rights obligations. After much resistance, the Government of Belarus permitted the AMG to open in February 1998 with a mandate to monitor the human rights situation and advise the government. Although government authorities have participated in a dialogue with the AMG on these issues, they have not adopted any of the legislative or administrative measures suggested by the AMG nor improved its human rights record. Its relationship with the political opposition, despite AMG efforts, remains half-hearted and non-constructive at best.

In June 1998, the Government of Belarus violated the principle of inviolability of diplomatic missions under the Vienna Convention on Diplomatic Relations by evicting the U.S. and other countries' ambassadors from their diplomatic residences. The pretext for their eviction was that utility repairs were necessary. The government subsequently terminated all access to the properties and declared the area a "presidential territory." The United States, the European Union and other countries recalled their ambassadors, sent their Belarusian counterparts home and took other measures in protest. In September 1999, this dispute was resolved and the Government of Belarus paid compensation for taking the residence and the U.S. ambassador returned to Minsk.

The Belarusian Government's military doctrine is in accord with the OSCE principles on the inviolability of borders and non-interference in the internal affairs of other states. Belarus rejects war as a means of settling disputes. Its constitution declares Belarus a non-nuclear and neutral state. A new union treaty with Russia, signed on December 8, 1999, has been criticized by the opposition and some observers as having the potential to greatly reduce Belarus' national sovereignty and lead to its absorption by Russia. The treaty's implications are unclear at this time. Belarus continued negotiations with Baltic countries toward definition of common borders and repatriation.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Belarusian leader Lukashenko was an outspoken supporter of Serbian ethnic cleansing in Kosovo. His support resulted in Belarus breaking relations with NATO during the bombing campaign against Serbia. Lukashenko also supports Russia's military actions in Chechnya. Belarus is not involved directly in ethnic or regional conflicts and has supported the Commonwealth of Independent States and OSCE as conflict-resolving mechanisms. Belarus is only a conditional member of the CIS Collective Security Agreement; its constitution prohibits the stationing of foreign troops in Belarus and the deployment of Belarusian troops abroad.

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. Belarus has indicated its intentions to 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 I promising to eliminate all strategic offensive arms located in Belarus. On November 27, 1996, the last nuclear missiles and warheads were transferred from Belarus to Russia, well ahead of the seven-year START deadline. Belarus has been a participant in the Standing Consultative Commission in discussion and formally acceded to the ABM Treaty on September 26, 1997. On September 24, 1996, Belarus signed the Comprehensive Nuclear Test-Ban Treaty at the UN General Assembly.

Belarus ratified the CFE Treaty on October 30, 1992. The CFE Flank Agreement was ratified on May 15, 1997. Belarus has participated actively in the CFE Joint Consultative Group, the body responsible for CFE implementation as well as in the CFE adaptation negotiations completed in November 1999. It signed the CFE adaptation agreement at the November 1999 OSCE Summit in Istanbul. Belarus has fulfilled its CFE Treaty reduction obligations, has provided annually data on its equipment holdings, and has hosted inspections on its territory as required by the Treaty.

However, in late 1997, after Belarus failed to utilize Nunn-Lugar assistance for destruction of its SS-25 launch pads, that assistance project was terminated. The launch sites will remain START-accountable until they are destroyed. Other CTR assistance was suspended in 1997 because of human rights concerns. President Lukashenko has publicly expressed regret over the removal of nuclear weapons from Belarus.

Belarus has reduced the size of its armed forces and related expenditures. Belarus has stated its intention to convert its defense industry to civilian production but lacks the funds to do so quickly.

Belarus is a party to the 1993 Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction, and to the 1972 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 Belarus has engaged in the proliferation of nuclear, biological, or chemical weapons or related technology. However, Belarusian entities in 1999 have reportedly continued selling to foreign countries MAZ truck chassis (items not on any international control list) that can be modified to make mobile missile launchers.

In 1999, Belarus continued to be a leading conventional arms exporter as it sold off excess Soviet-era equipment. Moreover, an increasing number of reports of Belarusian transfers or potential transfers of conventional weapons to state-sponsors of

terrorism have been received. There are also reports of arms retransfers from Belarus to countries of concern (armaments originating in Russia and other former Soviet states). These reports are being carefully reviewed in light of our legal obligations under the various proliferation sanctions laws. No lethal military equipment transfer sanctions were imposed on Belarus during the reporting period.

By a presidential decree on December 4, 1997, Belarus formalized its Moratorium on the Export of Anti-Personnel Landmines, which it had observed in practice since August 1995.

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 concerns by establishing ministries of energy, forestry and water resources, and land reclamation. It has also established state committees on the consequences of the Chernobyl accident, the ecology, and the supervision of safety procedures in industry and the nuclear power industry. Belarus suffered considerably from the effects of the Chernobyl disaster 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. Belarus has set up a Committee of the Council of Ministers on Emergency Situations, on the Consequences of the Chernobyl Disaster, and the Environment to oversee and coordinate environmental protection efforts undertaken by individual ministries.

Several non-governmental organizations (NGOs) and foundations continue to deal with the Chernobyl aftermath. The authorities have harassed and closed many of the programs of these NGOs. Belarus possesses the human and natural resources to gradually address the environmental challenges facing the country. Sufficient political will and a willingness to take the steps necessary to facilitate international funding would help to sustain progress in environmental restoration and protection.

Section 498A(a)(8): "deny support for acts of international terrorism."

There is no compelling evidence that Belarus has granted sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Belarus is a party to seven of the twelve international counter-terrorism conventions.

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, including Belarus, signed a Memorandum of Understanding declaring that they were 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 (FSU). The December 1991 agreement provided that Belarus' share of the debt of the former Soviet Union would be 4.13 percent. In 1992, Russia sought to replace the "joint and several liability" principle by seeking full liability for the foreign debt of the FSU in return for all the external assets of the FSU. In July 1992, Belarus signed a "zero option" agreement with Russia under which Russia agreed to pay Belarus' share of the foreign debt of the FSU in return for Belarus' share of the external assets of the FSU.

Please see Section 498A(a)(9) of the Russia section 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 Belarus is conducted through the U.S.-Russian Joint Commission on POWs/MIAs established in March 1992. Beginning in 1997, however, U.S. officials held several meetings

directly with Belarusian officials toward establishing a bilateral agreement. Meetings have continued, although due to the poor state of relations conclusion of an agreement has been delayed.

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 currently providing military, economic, nuclear, or other assistance to the Government of Cuba. Given all information at hand, all trade is believed to occur 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. The President has not made such a determination at this time. However, as discussed above, we continue to have serious concerns about the Belarusian Government's human rights record.

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. However, the Belarusian Government's decision not to destroy the SS-25 launch pads, despite provision of USG assistance, may in the future require us to conduct inspections of the sites under START terms. We are concerned about the implications of President Lukashenko's statements regarding the removal of nuclear weapons from Belarus.

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 determined that the material, equipment, or technology was to be used by such country in the manufacture of such weapon?"

No such determinations were made with respect to Belarus in 1999.

Section 498A(b)(4): Is the Government of Belarus "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991?"

No.

Section 498A(b)(5): Has the President determined and certified within 30 days to the appropriate congressional committees that the Government of Belarus "is providing assistance for, or engaging in, non-market-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 Government of 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 have no information that the Government of Belarus has provided such assistance.

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."

Since 1991 Georgia has made progress toward, and is committed to, the 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 August 1995. Presidential and parliamentary elections were held for the first time under the new constitution on November 5, 1995. Local elections were held for the first time in November 1998, although the central government will continue to appoint some local officials, including regional governors and the mayors of Georgia's major cities. Parliamentary elections were held for the second time on October 31, 1999; the OSCE stated that, despite irregularities, Georgian voters were generally able to express their will. The OSCE's preliminary statement on the elections affirmed that political pluralism exists in Georgia with a clear distinction between competing political interests. (Elections took place in all areas except those under the control of Abkhazian and South Ossetian separatist forces who refused to support the process.) Presidential elections are scheduled for April 2000.

The parliament elected in November 1995 passed significant legislation instituting legal, institutional and procedural reforms supportive of rule of law, individual freedoms and representative government. However, law enforcement agencies have been slow to adapt their practices to democratic norms. In addition, parliament amended the criminal procedures code this year, and some human rights NGOs expressed concerns that several amendments would adversely affect due process.

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 improved significantly during 1996 and 1997. Accomplishments included a significant reduction in the inflation rate, 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. Real GDP growth for 1996 and 1997 was estimated at over ten percent per year, especially in agriculture, construction, and services. In spring 1997, the government announced a second round of structural, legal and organizational reforms, which are needed in order to attract foreign and domestic investment. The parliament adopted a new tax code and a new customs code in 1997.

During 1998, severe drought, spillover effects of the economic crisis in Russia, and the growing fiscal deficit dampened growth to about three percent. Georgia's macroeconomic performance is deteriorating; the government has not adequately addressed its budget deficit, and government debt has ballooned. The Georgian Government and IMF continue discussions on economic reform requirements, especially in the problem areas of revenue collection and fighting corruption, and Georgia will have to show significant progress in order to qualify for a new IMF program.

The national bank has allowed the national currency, the lari, to float since 1998. The currency devalued at that time, but has remained relatively stable in 1999. Inflation remains under control. The national bank continues to improve banking supervision and meet IMF targets on reserves.

Georgia began to privatize its energy distribution system in 1998: the electric plant at Telasi was privatized in January 1999, and the Georgians are now in the final stages of negotiations to privatize the thermal power plant at Gardabani. The parliament has passed legislation on the privatization of the state telecommunications monopoly, and the Georgian Government plans to privatize the sector through international tender. Small-scale privatization is virtually complete and 76 percent of

medium- and large-scale enterprises have been privatized. About 55 percent of cultivated land has been distributed to private farmers, and a U.S.-inspired land-titling program helped to implement low-cost, transparent titling and registration processes of approximately 300,000 agricultural parcels.

Georgia is a member of the IMF, World Bank and EBRD. The WTO General Council approved Georgia's accession package on October 6, 1999, and the Georgian parliament is preparing to ratify accession to the WTO. Georgia enacted legislation on protection of intellectual property rights as a criterion for WTO accession. An agreement on bilateral trade relations with the United States, which provides mutual Normal Trade Relations (formerly MFN) treatment and contains intellectual property rights provisions, entered into force in August 1993; a bilateral investment treaty entered into force in August 1997. An Overseas Private Investment Corporation agreement has been in force since 1992, and Georgia has submitted a letter to the United States Trade Representative requesting designation as a beneficiary under the Generalized System of Preferences (GSP).

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 continued efforts to improve its uneven human rights record, but problems remain. The constitution includes significant commitments to human rights principles, and in 1995 the parliament restructured the state human rights protection body to strengthen ombudsman functions. A human rights ombudsman was appointed in fall 1997. In 1996, parliament passed legislation designed to strengthen the court system and increase judicial independence. There has been some progress in the area of allowing international monitors access to prisons and detainees, but some officials continue to impose restrictions on a case by case basis. Freedom of religion is generally unrestricted, as is the freedom of foreign and internal travel and emigration. However, local police and security officials at times have harassed foreign missionaries or did not intervene to prevent harassment. 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, deaths in custody, extremely harsh prison conditions, judicial corruption, denial of fair and expeditious trial, and arbitrary interference with privacy continue. However, local human rights groups reported that police abuses again declined this year.

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 United States continues to work bilaterally and with the UN, the OSCE and other nations to encourage all parties to pursue a peaceful resolution of both conflicts in a manner that safeguards both the territorial integrity of Georgia and the rights of individuals belonging to ethnic minorities.

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 1994 and subsequent demand that any settlement grant the region equal status with the government in Tbilisi. Negotiations under the auspices of the UN continue. Although direct bilateral talks stalled in 1999 during a gap in the position of Special Representative of the Secretary General (SRSG) and in advance of October parliamentary elections, the appointment of a new SRSG is expected to re-energize work toward a resolution of the conflict. 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 cooperated with the UN and OSCE, which established a human rights office in Sukhumi, the capital of Abkhazia. The office monitors the human rights situation in the region and encourages 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 ratified the CFE Treaty in 1992 and the 1996 Flank Agreement in 1997. In the period since, Georgia has participated actively in negotiations to adapt the CFE Treaty, which culminated at the November 1999 OSCE Summit with signature by all 30 CFE states of an agreement on CFE adaptation. The Government of 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.

At the November 1999 OSCE Summit at Istanbul, Georgia successfully reached an agreement with Russia on a timetable for the withdrawal of some of its forces and equipment from Georgia, and closure of two of four Russian bases on Georgian territory, thus addressing an important Georgian security concern. All CFE limited equipment is to be withdrawn/disposed of from the Russian military bases at Vaziani, Gudauta, and repair facilities in Tbilisi by December 31, 2000. The Russian military bases at Gudauta and Vaziani will be disbanded by July 1, 2001, and issues of utilization, including possible joint utilization, of those facilities and infrastructure will be decided in the same time frame. It is also agreed that during the year 2000, Russia and Georgia will complete negotiations regarding the duration and modalities for future functioning of the Russian military bases at Batumi and Akhalkalaki, Georgia.

The U.S. is helping to enhance Georgia's security through the Foreign Military Financing (FMF), International Military Education and Training (IMET), and Excess Defense Article (EDA) programs. While Russia also has provided some military assistance, the Georgian military remains ill-equipped. The Government of Georgia has established as a priority the development of the indigenous ability to control its borders. In November 1999, the last Russian border guards departed Georgian territory. This was made possible, in large part, by assistance provided through the U.S. Georgian Border Security and Law Enforcement Program.

Georgia has not engaged 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-weapons state on March 7, 1994. Georgia has ratified the multilateral Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons. We do not believe that Georgia has engaged in significant transfers of conventional weapons. In addition to contacts with other Western governments, Georgia has closely engaged with the U.S. on cooperative efforts to establish an effective export control system. In 1998 Georgia adopted a new law on export controls, an important first step. Georgia is now exploring the creation of an export control office under the Ministry of Foreign Economic Relations and Trade.

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 to 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 natural gas and oil.

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. A National Environmental Action Plan and a biodiversity strategy are under preparation. 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. In September 1999, Georgia joined Armenia in signing the charter for, and establishing the Regional Environmental Center in the Caucasus, located in Tbilisi. The United States and the European Union are supporting and co-financing the establishment of this independent, non-profit, and non-political organization, the mission of which will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making. The World Bank has also undertaken a program, administered in cooperation with the National Park Service of the

Department of the Interior, to help Georgia protect habitats, promote biological diversity and environmental protection, and develop management of park and natural areas.

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 that have committed acts of international terrorism or otherwise support international terrorism.

In fall 1999, Russia charged Georgia with allowing Islamic fundamentalists providing support to the Chechen insurgents to use Georgia as a staging area and transit point for fighters and materiel. Georgian has made good faith efforts to close its border with Chechnya to fighters and those who wish to smuggle money, weapons and supplies to them. Tbilisi has imposed special visa requirements on a number of nationalities in an attempt to stop these flows. Georgia is a party to three of the twelve international counter-terrorism conventions.

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 that assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union (FSU). 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. Although Georgia 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") on September 14, 1993, the parliament has not ratified it and Georgia has proposed opening a new round of negotiations.

Please see Section 498A(a)(9) of the Russia section 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 that was established in March 1992. The Commission visited Georgia in May 1996 and met with President Shevardnadze and other high level 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 detainees and prisoners by 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 such determinations were made with respect to Georgia in 1999.

Section 498A(b)(4): Is the Government of Georgia "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No.

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 non-market-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, to our knowledge, provide assistance for or engage in non-market-based trade with the Cuban Government.

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

KAZAKHSTAN

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."

Political power in Kazakhstan is concentrated heavily in the presidency. President Nursultan Nazarbayev, who was the head of the Communist Party in Kazakhstan prior to independence, has been his nation's only leader since the break-up of the Soviet Union. He strengthened his political grip in 1995 when he dissolved the parliament and stage-managed two Soviet-style referenda, both marred by serious irregularities. The first approved a new constitution that increased the power of the presidency at the expense of the legislature. The second extended his term in office until the year 2000.

On October 8, 1998, Nazarbayev accepted the largely subservient parliament's request to hold an early election in January 1999, almost two years ahead of schedule. On November 30, only three candidates other than Nazarbayev were officially registered to run: a senator, the head of the State Customs Committee, and the head of the Communist party. The first two candidates were widely considered to be handpicked presidential supporters. Two opposition candidates were determined to be ineligible to run for president in accordance with amendments made in April 1998 to the election decree which barred persons with administrative convictions from the previous twelve months to run for election. Former Prime Minister Kazhegeldin, a leading Nazarbayev opponent, was barred because he had been convicted of attending an unsanctioned meeting, and anti-nuclear activist Asylbek was disqualified for organizing an unsanctioned demonstration. Because election preparations failed to provide for an electoral process that would meet Kazakhstan's commitments as an OSCE participating state, the U.S. sent no observers. On January 10, 1999, President Nazarbayev was elected to a new seven-year term in an electoral process that the OSCE determined fell far short of its standards for open, free, and fair elections. The U.S. concurred, noting that on short notice, the election date was advanced by more than two years, giving candidates little time to organize campaigns. The government used a restrictive electoral law to limit the field of serious candidates based on convictions for political offenses. Candidates received unequal access to the media, and there were numerous instances of intimidation of voters and the opposition prior to the election.

After the presidential election, Kazakhstan made significant legal and procedural improvements to the election system in preparation for October 10 elections to the lower house of parliament (Majilis) and regional and local legislatures. Although the changes fell short of OSCE recommendations, the OSCE noted the positive new electoral regulations, a pre-election atmosphere of greater pluralism, including extensive media coverage and debates, and improved administration of polling places. In view of these improvements and the Kazakhstani Government's stated commitments to implement reforms, the OSCE determined that a full observation team was warranted.

The OSCE's preliminary assessment characterized the parliamentary elections as a "tentative step in the country's transition to democracy," but found that despite the improvements, the electoral process fell short of OSCE standards in a number of ways. Preparations were undermined by illegal interference, unfair campaign practices by parties most closely associated with existing power structures, threats of official measures jeopardizing media operations, and intimidation and obstruction of opposition candidates' campaigns. The OSCE criticized the defective election law, including its candidate disqualification provisions. The Government of Kazakhstan failed to ensure the transparency of parliamentary election results, leading many to question the new parliament's legitimacy. In its preliminary report, ODIHR cited evidence of falsified vote protocols, precinct voting results adjusted by district election officials and restrictions on observers' access to the tabulation process at the district levels. ODIHR found that almost invariably, local and regional executive officials interfered with the voting process and gave instructions to electoral commissions. In addition, three races were annulled after the second round. Under Section 96.4 of the election law, all candidates who ran in October were disqualified from the December 26 rerun elections.

A key indicator of the Kazakhstani Government's commitment to reform will be how it follows through on OSCE recommendations. In the Final Report of the U.S.-Kazakhstan Joint Commission signed by Vice President Gore and President Nazarbayev on December 20 Kazakhstan committed to work closely with the OSCE to implement the recommendations the OSCE will make in its final report on the parliamentary elections. As of the end of December, Central Electoral Commission Chair Baliyeva had only taken partial steps to fulfill some of her post-parliamentary election assurances. On December 13, she provided to ODIHR spreadsheets for precinct voting in both rounds for only one of the 67 districts. She also gave ODIHR copies of her letter to President Nazarbayev requesting he discipline 19 local officials for interfering with voting in 12 oblasts (regions) and her letter to Prime Minister Tokayev asking the Government of Kazakhstan to propose parliament remove Section 96.4 from the electoral law. Baliyeva did not indicate how the Government of Kazakhstan has addressed the more than 400 complaints filed with the CEC or the more than 1000 complaints filed with its media subdivision on the conduct of the election.

In Kazakhstan, the executive branch dominates political institutions and the parliament. Currently, the parliament cannot initiate changes to the constitution or exercise oversight over the executive branch. It remains to be seen how the new parliament will interact with the government. The outgoing parliament had to some degree asserted itself on budget, social and environmental issues, but in the end toed the executive's line. The former parliament had sought contact and advice from other national assemblies, including the U.S. Congress. It had also become more active in the drafting of legislation and has incorporated feedback from non-governmental organizations in its efforts.

The 1995 constitution placed the judiciary under the control of the president and the executive branch. Government interference and pressure compromise the court system's independence. The president has the power to appoint judges, local governors, and the cabinet. Judges are beholden to the executive branch, underpaid, and susceptible to corruption. There is no tradition of judicial independence. The constitution establishes the necessary procedures for a fair trial. Trials are public, defendants have the right to be present, the right to counsel, and the right to be heard in court and call witnesses for the defense. There is also a presumption of innocence and the right of appeal. However, a gap exists between these principles and actual practice.

Although Kazakhstan is politically stable, concerns remain that political authoritarianism and corruption undermine its stability in the medium- to long-term.

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)."

Since independence, Kazakhstan has taken important steps toward development of a market-based economy and has tried to create an attractive business climate for foreign investors. A bilateral investment treaty between the U.S. and Kazakhstan entered into force in January 1994. Laws guaranteeing fair treatment for foreign investors have been enacted. The American Chamber of Commerce is active in Almaty and the U.S.-Kazakhstan Business Association was created in 1999 in Washington, DC.

Following five quarters of positive growth, GDP declined a total of 2.5 percent in 1998. Economic performance in the first part of 1999 was sluggish, reflecting the continuing difficulties caused by the 1998 financial crises in Russia and Asia. After the government abandoned in April the fixed foreign exchange rate for the national currency, the tenge, Kazakhstani goods became more competitive on the world market. World prices for energy and raw minerals increased. Russian demand for Kazakhstani products picked up, even though at year's end it remained well below pre-August 1998 levels. Kazakhstan's enjoyed a record wheat harvest in 1999. As a result of these positive developments, expected 1999 GDP growth rate balanced out to a 0.6 increase.

Kazakhstan's 1998 inflation rate was 8.5 percent, down from 2,169 percent in 1993. The bulk of industry has been privatized, including over 80 percent of small enterprises. Several large state enterprises have sold partial interests to private investors. The privatization of Kazakhstan's "blue-chip" enterprises has been delayed repeatedly, however. Regulatory improvements would help make these blue-chip enterprises more attractive to foreign private investors.

Kazakhstan's IMF program was suspended in December 1998, after government expenditures significantly exceeded spending targets in the run-up to the presidential election. To address declining revenues, the government trimmed budget spending, the budget deficit, and wage and pension arrears. In response to the Kazakhstani Government's commitment to reform, the IMF approved a \$453 million Extended Fund Facility for Kazakhstan on December 13. However, to reach its

economic potential, Kazakhstan must pursue prudent fiscal policies; adopt a measured monetary policy; proceed with key structural reforms such as privatization, pension and financial sector reform; and establish reliable and diversified oil export routes. The primary objective of Kazakhstani Government fiscal policy is to consolidate public finances through revenue enhancements and cutbacks in expenditures. Efforts by the authorities to reduce the "culture of nonpayment" are critical to avoiding arrears and honoring financial obligations, thereby building confidence among investors.

From independence in 1991 to the end of the third quarter of 1999, Kazakhstan attracted more than \$8.3 billion in direct foreign investment, mostly in the oil and gas sector. U.S. companies have invested more than \$2 billion, making the U.S. the largest foreign investor in Kazakhstan. Although many steps toward creating a more Western-style business environment have been taken, an incomplete legal infrastructure, frequent tax changes, and a cumbersome and often corrupt bureaucracy pose serious obstacles to foreign investors. There are signs the environment for business may be improving slightly. Dramatic increases this year in oil and mineral prices boosted the economy. A joint government-private sector working group on labor and work permit issues has reduced the number of licenses required to import foreign labor, but difficulties in this area remain, such as the possible introduction of quotas for foreign workers. In December 1999, the U.S. Agency for International Development and the Kazakhstan Agency for the Regulation of Natural Monopolies, Protection of Competition and Support for Small Business signed a Memorandum of Understanding to cooperate to improve the climate for the development of small business.

Kazakhstan applied for accession to the World Trade Organization (WTO) in 1996. The U.S. has been providing technical assistance in Kazakhstan's accession process. Kazakhstan has declared its intention to accede to the WTO in the next two years. Draft legislation and new documentation provided to the WTO this summer are being reviewed by members of Kazakhstan's working party. Kazakhstan acceded to the Berne Convention for the Protection of Literary and Artistic Works on January 12, 1999, with entry into force on April 12, 1999.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Post-Soviet Kazakhstan still has much work to do to meet its OSCE commitments. Kazakhstan's citizens generally enjoy freedom of religion, speech, and assembly, although there has been occasional repression of individuals and groups critical of the government. Democratic institutions remain weak and the government infringed on citizens' rights to change their government. The legal structure, including the 1995 constitution, does not fully safeguard human rights. The gap between law, including the constitution, and actual practice undermines citizens' faith in public institutions and rule of law.

There are reports from human rights NGOs that members of the security forces sometimes beat or otherwise abuse detainees, and already harsh prison conditions continue to deteriorate. There were instances of arbitrary arrest, and prolonged detention without charge is a problem. Law enforcement officials routinely exploit minor infractions of the law to arrest and detain government opponents and have also used such technicalities to harass foreign businessmen. However, in 1999 Kazakhstan's law enforcement authorities worked with the OSCE and international community to improve their investigatory techniques in order to reduce reliance on confessions. Some police officers were fired and prosecuted for beating detainees. Kazakhstan is in the process of reforming its legal system. A new criminal code was implemented in 1998. Human rights observers nevertheless assert that the legal system remains riddled by corruption.

The constitution and 1999 Press Law provide for freedom of the press. After several years of relative non-interference with the independent media, in late 1996, the government and Nazarbayev loyalists began acquiring control or ownership of most independent outlets. The government continues to own and control printing and distribution facilities and to subsidize publications, including many that are supposedly independent. No independent media have national broadcast coverage and only one independent newspaper has national distribution. There are hundreds of independent regional broadcast and print media. Several newspapers have been and continue to be harassed by tax authorities. While only a few, small, independent newspapers still exist, some political opposition groups freely issue their own publications. Direct and indirect government pressure and vague national security and state secret laws result in widespread media self-censorship. The press is generally permitted to criticize government decisions, but not the President or his family. Journalists reported government pressure, particularly during the parliamentary election campaign, not to cover opposition candidates.

The government sporadically infringes on citizens' rights to privacy. Kazakhstan's authorities are believed to tap phones and monitor the correspondence of some members of the political opposition. Freedom of assembly is sometimes restricted and is hindered by complicated registration requirements for organizations and political parties. The government retained in the

revised May election law a provision that bars from candidacy anyone convicted within a year of the election of administrative offenses, including such political offenses as participating in an unauthorized demonstration.

Freedom of association, while generally respected, is hindered by complicated registration requirements. Organizations must apply to the local authorities for a permit to hold a demonstration or public meeting at least 10 days in advance, or the activity will be considered illegal. In most cases, local officials issued necessary permits. Some organizers of unsanctioned demonstrations have been arrested and fined or imprisoned. Opposition activists have been denied at the last minute permission to use rented facilities, reportedly at the instruction of Kazakhstan's security officials.

The constitution provides for the right to emigrate and the right of repatriation; both are respected in practice. 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. Refusals to grant exit visas are rare. Most pertain to government opponents subject to pending legal action as a result of their political activity.

The government generally respects freedom of religion and various denominations worship without government interference. In March, representatives of Jehovah's Witnesses reported that six of their groups were questioned by law enforcement officials. In July, seventy members of a Muslim study group were arrested near Taraz for suspected involvement in forming a terrorist group. The study group members were released by September. One member was convicted of a minor charge and subsequently benefited from a general amnesty. Due in large part to concerns about events in southern Kyrgyzstan and the northern Caucasus, the government created in September a commission to combat religious extremism. Kazakhstan has deported over seventy Pakistani citizens, claiming they were planning to spread radical Islam.

The constitution states that "everyone is equal before law and court. No one may be subjected to any discrimination for reasons of origin, social position, occupation, property status, sex, race, nationality, language, attitude to religion, convictions, place of residence, or any other circumstances." The government continues its campaign of "Kazakhification" of official positions. As a result, most of Kazakhstan's ruling elite, including nearly the entire Cabinet, are ethnic Kazakhs, although ethnic Kazakhs account for only about half of the population. Kazakh is the state language, although Russian is officially used on an equal basis in organizations and bodies of local self-administration.

Women, the disabled and ethnic minorities face considerable societal discrimination. The government has tried to limit the influence of independent trade unions, both directly and through its support for state-sponsored unions. Members of independent trade unions have been harassed.

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."

Kazakhstan has made a strong commitment to respect its international legal obligations and OSCE commitments to refrain from the threat or use of force and to settle disputes peaceably. Kazakhstan is at peace with its neighbors and has defensive military forces that 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 an active 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 generally 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 one of the four Soviet successor states with nuclear weapons on its soil at the time of independence and the second Soviet successor state to accede to the NPT as a non-nuclear weapons state, doing so in February 1994. All nuclear weapons were removed from its territory by the end of April 1995. It has also ratified the START I treaty and has elimi-

nated all strategic offensive arms under START I well ahead of schedule. Kazakhstan is a successor in START and INF treaties and has been an active participant in their implementation by virtue of its representation on the respective implementation commissions, the JCIC and SVC. Kazakhstan has also indicated its wish to be considered a successor state under the ABM Treaty, and has participated in the SCC, the implementation commission established by that treaty. The government is also committed to maintaining a military force consistent with legitimate defense requirements. The Government of Kazakhstan has consistently stated that it is against its policy to transfer conventional weapons to rogue states, or to engage in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. We do not believe that it has engaged in transfers of, or in the proliferation of, nuclear, biological, or chemical weapons, their delivery systems, or related technology.

However, the transfer of MiG-21 fighter aircraft from Kazakhstan to North Korea in June-July 1999 raised serious questions about the government's controls on conventional military technology and its commitment to non-proliferation in this area. After concerns were raised, Kazakhstan acted to inform the U.S. in detail of the criminal investigation and the legal action against those responsible for this transfer and committed to adopt international export control lists and to automate its export control system, important steps in advancing its export control regime. Kazakhstan's then-Defense Minister Altynbayev and then-Chief of the Committee for National Security (KNB) Abykayev were relieved of their duties. In November 1999, the U.S. determined that the MiG-21 incident triggered sanctions under Section 620H of the Foreign Assistance Act prohibiting the provision of U.S. assistance to foreign governments that transfer lethal military equipment to state sponsors of terrorism, but decided, in view of the importance to U.S. national interests of furnishing assistance to the Government of Kazakhstan, to waive such sanctions. The sanctions were not, however, waived with respect to an entity owned by Kazakhstan's Government, a private Czech entity, and three individuals directly involved in the transfers. To prevent future attempts to bypass Kazakhstan's export controls, the U.S. is providing additional export control assistance to Kazakhstan.

Kazakhstan is an original signatory to the Chemical Weapons Convention (CWC). In June, President Nazarbayev signed into law the ratification of the Chemical Weapons Convention (CWC) preparing the way for Kazakhstan to deposit its instrument of ratification for the CWC. Kazakhstan attended the Fifth Biological Weapons Convention review conference as an observer and is actively reviewing whether to accede to the treaty.

Kazakhstan ratified the CFE Treaty on October 30, 1992. It ratified the CFE Flank Agreement on May 14, 1997. Kazakhstani representatives have participated actively in the CFE Joint Consultative Group, the body responsible for CFE implementation, as well as in the CFE adaptation negotiations completed in November 1999. Kazakhstan signed the CFE adaptation agreement at the November 1999 OSCE Summit in Istanbul. Finally, Kazakhstan has never declared CFE Treaty-Limited Equipment in the portion of its territory covered by the Treaty. It has provided annual notification that it has no TLE in the area of application in past years. (As of January 3, 2000, however, Kazakhstan had not yet provided its report normally submitted each year on December 15.)

We worked closely with Kazakhstan to dismantle nuclear weapons facilities at Semipalatinsk and the destruction of delivery systems, such as Soviet-era bombers. The closing of the last nuclear weapons test tunnel at the former Soviet nuclear test site Degelen is scheduled for 2000. Kazakhstan signed a full-scope IAEA safeguards agreement in July 1994, which entered into force in August 1995. Although Kazakhstan is not a member of the Nuclear Suppliers Group, it has expressed an interest in joining. The Agreement for the Peaceful Uses of Nuclear Energy, signed by the U.S. and Kazakhstan in 1997 after Kazakhstan provided the requisite assurances of non-cooperation with proliferating states, entered into force in November. In April 1999, the Government of Kazakhstan announced its decision not to restart the BN-350 reactor at Aktau and to pursue measures leading to its safe and permanent shutdown. At the December Joint Commission, the U.S. Department of Energy and the Ministry of Energy, Industry and Trade of Kazakhstan negotiated an implementing arrangement to support decommissioning the reactor. The United States and Kazakhstan continued cooperation on the disposition of spent fuel at the BN-350 reactor and agreed to further technical discussions to develop the strategy for the disposition of spent fuel. The U.S. Nuclear Regulatory Commission and the Kazakhstan Atomic Energy Committee also renewed their agreement for nuclear safety cooperation for another five years. Prime Minister Tokayev issued a decree in October exempting from taxes U.S. assistance funds paid to Kazakhstan's scientists under the Initiative for Proliferation Prevention (IPP) projects, allowing the resumption of six projects that had been suspended over this issue and the funding of four new projects by the U.S. At the December Joint Commission meeting, the USG agreed to fund an "Ecological Survey of Industrial Sites" environmental monitoring project at Stepnogorsk through the International Science and Technology Center in cooperation with the U.S. Environmental Protection Agency.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant trans-border pollution, and promote sustainable use of natural resources."

Kazakhstan suffered severe environmental degradation under Soviet rule. There is broad-based support for domestic protection of the environment. The government's resources are inadequate to address some of the world's most challenging environmental problems: desiccation of the Aral Sea, protection of the fragile Caspian ecosystem, remediation of the Semipalatinsk nuclear testing range, clean-up of Baykonur launching facility, extremely polluted cities, desertification, and development of mechanisms for regional transboundary water management. Reduced health and agricultural spending have contributed to a tuberculosis epidemic and a serious locust invasion in 1999.

The government 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 trans-border and international environmental issues. It 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 is one of only two developing countries to announce that it intends to take on the obligations of an Annex I Party to the United Nations Framework Convention on Climate Change and to assume a binding target to limit greenhouse gas emissions under the Kyoto Protocol. The U.S. plans to continue supporting Kazakhstan's efforts to develop environmentally beneficial and economically feasible measures to combat global climate change.

Kazakhstan adheres to provisions of the 1998 Syr-Darya Water and Energy Agreement that entails providing energy to Kyrgyzstan in exchange for Kyrgyzstani management of upstream water. Kazakhstan has also expressed willingness to cooperate in developing laws on water rights and water user associations.

In 1999, Kazakhstan signed and ratified its instruments of ratification to the Convention on International Trade in Endangered Species (CITES), which will facilitate further efforts to conserve threatened and endangered species in the area. The U.S. is exploring the provision of training related to CITES implementation, obligations and enforcement. Kazakhstan discusses Caspian Sea environmental protection issues regularly with the other Caspian littoral states. Kazakhstan has been an active and constructive player in regional and international efforts to alleviate the deteriorating environmental conditions and foster regional cooperation in the Aral Sea Basin. In line with the Nukus Declaration of September 1995, 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 15-20 year plan to stabilize the Aral Sea.

The United States and the European Union are working together to establish an independent, non-profit and non-political Regional Environmental Center (REC) to serve the countries of Central Asia. The mission of the REC will be to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making. In July, Kazakhstan joined the other Central Asian states in deciding to locate the REC headquarters in Almaty.

Section 498A(a)(8): "deny support for acts of international terrorism."

Kazakhstan does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. At our bilateral Joint Commission session in November 1998, our two governments pledged to collaborate in the fight against international terrorism and signed a joint statement on terrorism.

Kazakhstan is a party to nine of the twelve international counter-terrorism conventions.

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 that assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union (FSU). 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 principal by seeking full liability for the

foreign debt of the FSU in return for all the external assets of the FSU. On September 6, 1993 Kazakhstan signed a "zero option" agreement with Russia under which Russia agreed to pay Kazakhstan's share of the foreign debt of the FSU in return for Kazakhstan's share of the external assets of the FSU.

Please see Section 498A(a)(9) of the Russia section 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 that was established in March 1992. The U.S. side of the Commission visited Kazakhstan in August 1994 and Kazakhstan promised cooperation on the POW/MIA effort. The government has been cooperative with all related interviews conducted in Kazakhstan.

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."

Kazakhstan 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

KAZAKHSTAN

Section 498A(b)(1): Has the President determined that the Government of Kazakhstan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. Although there are serious concerns about Kazakhstan's human rights record (as discussed above), we do not believe that the government is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Kazakhstan "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. Kazakhstan has taken a significant number of such constructive actions (as discussed above), including elimination of all strategic offensive arms under START I well ahead of schedule. Kazakhstan 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 Kazakhstan "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 Kazakhstan has made such transfers.

Section 498A(b)(4): Is the Government of Kazakhstan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information from which to conclude that Kazakhstan 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 Kazakhstan "is providing assistance for, or engaging in, non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Kazakhstan 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. is unaware of any assistance to or non-market-based trade with Cuba by Kazakhstan.

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."

Kyrgyzstan has expressed a strong commitment to human rights, democracy and the rule of law, and has made significant progress since gaining independence. Multi-candidate presidential and parliamentary elections took place in 1995 and they were judged free and generally representing the will of the people of Kyrgyzstan. A February 1996 referendum of dubious constitutionality significantly increased the power of the executive branch, primarily at the expense of the legislature. The referendum was marred by serious irregularities, including ballot stuffing. The constitution provides for an independent judiciary. Despite extensive judicial reforms and a large body of new law, the judiciary continues to be dominated by the executive branch. An October 1998 referendum legalized the privatization of land, reformed the structure and privileges of parliament, strengthened freedom of speech, and limited parliamentary immunity. On October 17, 1999, Kyrgyzstan held its first-ever local government elections, which were also the first of any kind under the revised election code. Although there were irregularities, the local elections did show a progression toward a free, fair and transparent electoral process.

There are numerous independent newspapers and magazines in Kyrgyzstan that are often critical of the government and are allowed to operate freely, although one prominent independent daily still faces periodic harassment. Convictions of several journalists for libel of public officials have raised concerns about the government's commitment to free speech, although all those convicted were subsequently released. In fall 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. In December 1997 the Kyrgyz parliament overrode a presidential veto of a new media law that restricted journalistic freedom. Attempts to make libel a civil rather than a criminal charge were defeated in parliament by an overwhelming majority. The October 1998 referendum resulted in language added to the Constitution precluding parliament from passing laws that infringe on free speech, but implementing legislation has not yet been developed.

Kyrgyzstan's constitution gives substantial guarantees of rights for its citizens, including members of non-Kyrgyz ethnic groups. Nevertheless, despite efforts by President Akayev to mitigate the effects of Kyrgyz nationalism, the ethnic Russian and Uzbek populations continue to complain of discrimination by ethnic Kyrgyz officials. The Government of Kyrgyzstan 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)."

Kyrgyzstan has made significant progress in restructuring its economic system and implementing legislation that will be the basis for a market economy. The national currency, the som, was introduced in May 1993, and parliament has adopted many favorable laws on privatization, joint ventures, foreign trade and investment and free economic zones. Most small and medium enterprises have been privatized. A trade agreement with the United States provides reciprocal Normal Trade Relations (formerly Most Favored Nation) status and contains intellectual property rights (IPR) provisions. An Overseas Private Investment Corporation (OPIC) agreement is also in force. A bilateral investment treaty with the United States entered into force in January 1994. Kyrgyzstan has committed to avoid imposing restrictions on payments for current international transactions and avoid engaging in multiple currency practices or discriminatory currency arrangements. Kyrgyzstan is a member of the EBRD, IBRD, and IMF. In December 1998, Kyrgyzstan became the first NIS country to become a member of the World Trade Organization (WTO).

Kyrgyzstan was the first Central Asian republic to embark on IMF-backed reform programs. The IMF provided approximately \$44 million in 1997 in support of the government's economic and structural reform program as the Government of Kyrgyzstan approaches the close of the third year of its three-year enhanced structural adjustment facility (ESAF). The World Bank funded two projects worth \$65 million in 1998, and cumulatively has funded 15 projects worth \$438.5 million.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Internationally recognized human rights are generally respected in Kyrgyzstan. President Akayev has sought to reassure ethnic minorities while simultaneously trying to satisfy the aspirations of ethnic Kyrgyz for greater national identity. The new constitution includes substantial protection for individuals, including non-ethnic Kyrgyz. Concerns remain over ethnic discrimination, but in general the situation for minorities has improved, and emigration, while free, has decreased.

Freedom of the press and freedom of speech are generally respected, although journalists have been arrested on several occasions on criminal libel charges. Several of these journalists have served time in jail, but most were either immediately freed or, if convicted, were released with credit for time served. The editor of a prominent independent daily has so far successfully challenged attempts by the tax police to arrest him and close down or curtail the operations of his newspaper.

The Kyrgyz constitution provides for freedom of religion. The government does not support any specific religion and expressly forbids religious instruction 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. In practice, the Commission requires each congregation to register separately and does not always process the applications with due promptness. Some domestic religious groups have experienced governmental interference, especially in rural areas. Ethnic Kyrgyz Christian congregations appear to face special barriers, as do some Muslim congregations with foreign support.

Although there is no law on emigration, administrative procedures provide for the free movement of people. Intending travelers and emigrants must present a letter of invitation from their country of destination in order to obtain an exit visa, but there are no reports of citizens being denied a passport or an exit visa after fulfilling this requirement. A presidential decree eliminating the exit visa requirement became effective October 1, 1999, but has not been fully implemented yet. Emigrants are not prevented from returning to the country, and there is reportedly a small but steady flow of returnees.

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."

Kyrgyzstan has made a strong commitment to the observance of international legal obligations and OSCE commitments. The OSCE opened an office in Kyrgyzstan in January 1999. Kyrgyzstan 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 also participates with neighboring Uzbekistan and Kazakhstan in a Central Asian Peacekeeping Battalion. Kyrgyzstan hosted the 1998 Central Asian Peacekeeping Battalion exercises, which included U.S. observers. Kyrgyzstan cooperated with its neighbors, earlier in 1999, to repulse a Tajikistan-based group of armed insurgents who took hostages in the southern part of the country.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Kyrgyzstan supports regional and international efforts to resolve peacefully the conflict in neighboring Tajikistan as well as in Afghanistan. The Government of Kyrgyzstan is committed to establishing a multi-ethnic national identity and is particularly sensitive to the concerns of the non-Kyrgyz ethnic groups in Kyrgyzstan, 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 Kyrgyzstan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Kyrgyzstan acceded to the NPT on July 5, 1994. Kyrgyzstan is also committed to maintaining a small, defensive military force and national guard. Kyrgyzstan has said that it is strongly opposed to the proliferation of weapons of mass destruction, their delivery systems or related technologies. The Government of Kyrgyzstan has taken steps to establish a functioning system of export controls. In 1998, the government submitted a draft export control law to parliament, which passed a first reading. We have received occasional reports of transfers or potential transfers of conventional weapons to state sponsors of terrorism from or through Kyrgyzstan, which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports resulted in a sanctions determination during the reporting period. We do not believe that Kyrgyzstan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Kyrgyzstan is a signatory to the 1993 Chemical Weapons Convention.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant trans-border 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 trans-border and international environmental issues. Kyrgyzstan is actively involved in bio-diversity issues and is working with international donors to advance bio-diversity studies. The Government of Kyrgyzstan has taken steps to establish public policy mechanisms to address environmental issues, including the establishment of a State Committee on Environmental Protection. National environmental NGOs continue to improve their access to the policy-making process on environmental issues.

Kyrgyzstan joined the other Central Asian states in a recent decision to locate the headquarters of a Regional Environmental Center (REC) in Almaty, Kazakhstan. The United States and the European Union are supporting and co-financing the establishment of this independent, non-profit, and non-political organization, the mission of which will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

Kyrgyzstan has been an active and constructive player in regional and international efforts to alleviate the deteriorating environmental conditions and foster regional cooperation in the Aral Sea basin. The Government of 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 Kyrgyzstan does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Kyrgyzstan is not a party to any of the twelve international counter-terrorism conventions.

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 (FSU). Kyrgyzstan signed both the October and December 1991 agreements. The December 1991 agreement provided that Kyrgyzstan'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, Kyrgyzstan signed a "zero option" agreement with Russia under which Russia will pay Kyrgyzstan's share of the debt in return for its share of the assets.

Please see Section 498A(a)(9) of the Russia section 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 that was established in March 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."

We have no evidence to indicate that Government of Kyrgyzstan is providing military, intelligence, economic, nuclear, or other assistance to 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 Kyrgyzstan 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 Kyrgyzstan 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 Kyrgyzstan has made such transfers.

Section 498A(b)(4): Is the Government of Kyrgyzstan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information from which to conclude that the Government of Kyrgyzstan is prohibited from receiving assistance by these sections.

Section 498A(b)(5): Has the President determined and certified within 30 days to the appropriate congressional committees that the Government of Kyrgyzstan "is providing assistance for, or engaging in, non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Kyrgyzstan 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 Kyrgyzstan is providing such assistance or engaging in such non-market-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 made significant progress toward implementing the rule of law and continued its efforts to make the transition to democracy during 1999. Municipal elections held on May 23 were deemed generally free and fair by international observers. President Lucinschi included a non-binding referendum item on the election ballot in which voters were asked if they would support amending the constitution to make the president responsible for formation of the government. The constitution currently requires parliament to form a government. Although a majority of voters supported amending the constitution, in November the constitutional court ruled that all referenda on amending the constitution must be approved by parliament before presentation to the voters. The court's decision, and in particular the willingness shown by all branches of the government to abide by the decision, demonstrated the increased independence of the judiciary and strengthening of the rule of law. A U.S.-assisted private law center continues to promote the legal profession and the judiciary.

In November the government of Prime Minister Ion Sturza was dismissed by a vote of no confidence in the parliament. The vote came about ostensibly over a bill introduced by Sturza's administration to privatize wineries and tobacco production. Sturza threatened to resign if parliament voted against the bill, prompting a vote of no confidence in his government. Speculation in the press was that President Lucinschi, viewing Sturza as a possible opponent in the 2000 presidential elections, engineered the vote by convincing several members of Sturza's parliamentary coalition to "defect" and become "independent." These independent members of parliament cast the deciding votes to dismiss Sturza, throwing the government into disarray for several weeks. After refusing to confirm two nominees, including the leader of the communist bloc in parliament, Dimitru Braghis was finally confirmed by parliament as new prime minister on December 21. Braghis, former First Deputy Minister for Economy and Reform, is a technocrat and only nominally aligned with the ruling coalition in parliament. By confirming Braghis, parliament avoided a deeper crisis, as the constitution requires the president to dissolve parliament and call new elections after three unsuccessful attempts to form a government. The new government of Prime Minister Braghis has stated its commitment to continuing the path of democratic and economic reform. The government is renewing talks with the World Bank and International Monetary Fund, both of which put their programs in Moldova on hold following parliament's rejection of the bill to privatize wineries and the tobacco industry.

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 make progress in implementing market-based economic reforms, private ownership and integration into the world economy. A law governing the sale and purchase of land took effect in September 1997. Citizens and foreign investors can buy and sell land at market prices. Approximately 80 percent of all housing units are also now in private hands. A largely completed mass privatization program has privatized 2,132 enterprises from many economic sectors. Efforts are currently underway to privatize energy and telecommunications. Two large and potentially controversial sectors remaining to be privatized are wineries and tobacco. Efforts to privatize these sectors brought about the downfall of the government of Prime Minister Ion Sturza in November. These sectors are controversial because they constitute a large percentage of the primarily agricultural economy of Moldova. At the same time, the government's land privatization program continued unabated in 1999. Over 550 farms were privatized and privatization of all former collective farms is expected to be completed by 2001. Export quotas have been eliminated, and import tariffs have been substantially reduced. Moldova has also made substantial progress toward WTO accession and may be able to accede in early 2000.

Moldova has adopted the basic reforms necessary for a market economy: prices have been largely freed, foreign trade has been almost fully liberalized, and the Moldovan leu is fully convertible for current account transactions. In 1996 the Moldovan Central Bank stopped its intervention on behalf of the leu, leading to a 36-percent decline in the value of the currency against the dollar. IMF and World Bank representatives and National Bank of Moldova officials all stressed that the move was necessary, if not overdue. The devalued currency may have a positive impact on the country's terms of trade. The government has also improved tax and customs collections, increasing government revenues.

In early 1999 the IMF resumed a \$35 million tranche of the extended fund facility. IMF assistance had been suspended since July 1997 because Moldova had failed to meet IMF conditions. Assistance was resumed because Moldova had met key conditions concerning the 1999 budget and had adopted a new law on administrative-territorial reform. Resumption of the IMF program cleared the way for resumption of World Bank assistance in the form of a SAL-II credit of \$35 million to bolster hard currency reserves in the central bank. Both of these programs were put on hold after the government crisis in November, but may be renewed if Braghis's government can demonstrate its commitment to proceeding with reforms.

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 generally respects the human rights of its citizens despite continuing problems in some areas. The law prohibits proselytizing, although the government generally recognizes freedom of religion and has never taken legal action against individuals for proselytizing. Journalists frequently practice self-censorship because of an article in the press law that allows public figures to sue for defamation without distinction between their public and private persons. The 1994 constitution provides the legal framework to ensure protection of minority rights, and has received positive assessments from international experts. The Gagauz, a Turkish-speaking minority in southern Moldova, enjoy autonomous status within Moldova. There are reports of human rights abuses by the Transnistrian authorities, among them discrimination against Romanian/Moldovan speakers. Moldova has abolished exit visas for travel abroad but individuals wishing to emigrate must settle financial and judicial obligations before permission to emigrate is granted. No cases of denial of permission to emigrate were reported in 1999.

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 participation in the OSCE and its commitments under the Helsinki Final Act. A Russian-brokered cease-fire in Transnistria has held firm since July 1992. The cease-fire established a tripartite peacekeeping force (comprised of Moldovan, Russian, and Transnistrian 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 an OSCE mission there. Nevertheless, a permanent solution to the separatist conflict remains elusive.

At the OSCE Summit in Istanbul, Moldova reached a bilateral agreement with Russia, included in the Summit Final Act, on withdrawal of Russian troops from the Transnistria region of Moldova. The commitments include withdrawal of Russian Treaty-limited equipment (TLE) by December 2001 and final withdrawal of all Russian forces by December 2002. Some movement on withdrawal occurred just prior to the Summit, when three trainloads of equipment from the Russian base at Tiraspol were shipped back to Russia. Ten more trainloads are ready for transport. The Russians also carried out a small destruction event involving armored vehicles and artillery in November. They displayed remnants of some 50 additional Russian armored vehicles and artillery pieces at Tiraspol that they said were destroyed in 1999. One step in this process, also endorsed at Istanbul, is the proposed visit of a French-led OSCE experts team to Transnistria -- in particular the Colbasna ammunition base. The team's objective will be to assess the steps necessary to facilitate destruction or removal of heavy weapons and destruction or prospects for withdrawal of the ammunition. The visit has been planned for some time, but in the past has been obstructed by the Transnistrian authorities. The U.S. is working, through the OSCE, to keep all parties engaged in moving toward implementation of the Istanbul commitments.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Since the inception of the military conflict in the Transnistria 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 Transnistrian officials an effective cease-fire 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. An OSCE mediation mission has been working in Moldova since 1993.

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 ratified the CFE Treaty on July 6, 1992 and the 1996 Flank Agreement on May 15, 1997. Moldova participates in the CFE Joint Consultative Group and was an active participant in negotiations on Treaty adaptation. At the OSCE Summit in Istanbul, Moldova reached a bilateral agreement with the Russian Federation on troop and equipment withdrawal, clearing the way for Moldova to sign the CFE adaptation agreement at the Summit. Moldova fulfilled CFE requirements for submission of equipment holdings in late December. Moldova's armed forces are reorganizing and developing, with U.S. assistance, a peacekeeping battalion capable of interoperation with international peacekeeping forces. This battalion will form the core of Moldova's armed forces, with a manpower objective of approximately one percent of the total population.

Moldova acceded to the Nuclear Non-Proliferation Treaty (NPT) in October 1994 in Washington. While there are periodic reports of potential transfers of sensitive technology, no violations of the NPT have been determined to have occurred. The Moldovan Government has cooperated on issues of sensitive technology transfers and with U.S. assistance is drafting a law to create a legal framework for a stronger, more effective export control regime. Moldova has made great efforts to strengthen control over its borders, including participation by Moldovan customs and border guards in U.S. assisted counter-proliferation programs designed to halt the flow of illicit WMD materials and conventional arms. In 2000 the U.S. is planning to send a team of experts to work directly with the Moldovan Government on drafting and implementing an export control as well as exploring methods of ensuring compliance with the law and providing possible alternatives for entities affected by the law.

Moldova is a party to the 1993 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.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant trans-border 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 increased awareness of environmental issues by establishing environmental risk analysis courses at six major universities, and by increasing awareness of the benefits of low-till farming methods via demonstration projects. Steps were taken in 1999 to pre-qualify private firms for a competitive tender for privatization of the energy sector. Privatization of this sector may be completed in 2000 and should result in reduced pollution through increased efficiency.

The U.S. cooperated with the EU in the creation of a Regional Environmental Center (REC) in Moldova, the mission of which is to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making. The REC has successfully executed two rounds of small project grants to environmental NGOs.

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 having committed acts of international terrorism or otherwise support international terrorism. Moldova is a party to five of the twelve international counter-terrorism conventions.

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 (FSU). Moldova signed the October, but not the December 1991, agreement. 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 principle of joint and several liability with full liability for the debt in return for all the external assets. On October 19, 1993, Moldova signed a "zero option" agreement with Russia under which Russia will pay Moldova's share of the FSU debt in return for Moldova's share of FSU assets as defined by the December 1991 agreement.

(Please see Section 498A(a)(9) of the Russia section 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, established in March 1992. Moldovan officials warmly welcomed the U.S. side of the Commission in August 1995. With the full support of the Moldovan Government, the U.S. Chairman 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 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 encompassed by that statute 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. 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 such determinations were made with respect to Moldova in 1999. The U.S. has been working closely with Moldova to halt certain illicit missile related activity with state sponsors of terrorism.

Section 498A(b)(4): Is the Government of Moldova "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991?"

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 non-market-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 within 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's progress towards building a society governed by law-based, democratic institutions has been uneven and beset by serious challenges, often due to significant limitations on the state's financial resources. However, notable progress has been made in some areas. In December 1993, the Russian people approved a constitution that provides for a democratic government comprised of three branches and includes checks and balances, as well as a strong executive. The executive branch is led by a popularly elected president who appoints the prime minister with the consent of the parliament. Presidential elections were conducted in 1996 with broad participation in a contest that was judged free and fair by international observers.

The legislative branch consists of a bicameral parliament, the State Duma and the Federation Council. Duma deputies are elected by party lists and single-mandate districts; membership in the Federation Council is granted to regional governors and the chairmen of regional legislatures. Duma elections, which were also judged free and fair, took place in 1993, 1995 and December 1999. The International Election Observation Mission – a joint effort of the OSCE, Council of Europe and European Parliament – noted some deficiencies in the December 19, 1999 Duma election, but gave the election a generally positive assessment and said it marked significant progress for the consolidation of democracy in the Russian Federation. Members of the Federation Council are elected according to timetables established by the regions they represent.

The constitution provides for an independent judiciary, including a supreme court that hears appeals from the courts of general jurisdiction and a constitutional court. In practice, the judiciary remains subject to political influence, particularly in high-profile cases. The government's inability to provide sufficient resources to the courts has also compromised the judiciary's freedom of action, and the judiciary – including the constitutional court – has not yet established effective mechanisms to enforce its rulings. The penal system is also woefully short of resources, and conditions for those in custody remain abysmal. Russia has yet to enact anti-corruption legislation or to develop a multidisciplinary approach to address corruption. The government has, however, begun to engage on the issue in multilateral fora, such as the UN, the G-8, the Council of Europe, and the February 1999 Global Forum on Fighting Corruption sponsored by the U.S.

Russia's constitution guarantees respect for internationally recognized human rights. Although the Russian parliament has been slow to pass implementing legislation in many areas, the guarantees of freedoms of speech, press, religion, assembly and movement have dramatically recast the individual's relationship with the state in Russia compared with the Soviet period. However, the government's human rights record continues to be uneven.

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 Russian economy has undergone tremendous stress as it has moved from a centrally planned economy toward a free-market system. Since 1991, Russia has succeeded in privatizing most of the formerly state-owned economy and freed business entities to trade and compete in a market where prices are generally set by supply and demand. The Russian Government officially estimates that 75 percent of manufacturing enterprises are fully or partially privatized. Eighty-five percent of current manufacturing output reportedly stems from such enterprises, and more than 80 percent of Russia's industrial workers work in these firms. The vast majority of Russia's financial sector is in private hands, with only one state-owned bank (Sberbank, which controls most retail banking) remaining from the Soviet era. During 1999, the government sold some of its remaining shares in oil and gas companies.

Further progress in privatization has been slowed by the ongoing economic crisis. Slow development and uneven enforcement of securities regulation, lack of a developed real property system, lack of financing due to political and economic uncertainty, over-reliance on barter transactions and failure to enforce bankruptcy against insolvent enterprises have all combined to perpetuate inefficiency and waste among state-owned and privatized enterprises alike.

Difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short-term borrowing to finance budget deficits led to a serious financial crisis in 1998. After abandoning efforts to remain current with payments on domestic debt and maintain the ruble exchange rate, the Russian Government managed to avoid runaway inflation by following relatively strict monetary and fiscal policies. All three governments appointed in the wake of the August 1998 crisis expressed their commitment to continuing market-oriented reforms. A real sense of urgency, however, was lacking. In 1999, the government did have success in implementing some, but not all, of the structural reforms required by the IMF for receipt of \$4.5 billion in promised credits. In late 1998, the Duma passed important parts of legislation on production sharing agreements (PSAs) aimed at providing a secure legal framework for oil and gas investments. Further legislation is required to fully implement the PSA regime. The Duma also enacted new laws on bankruptcy, which could, if used, serve as a starting point for restructuring of unproductive businesses, including banks.

Since 1995, Russia's trade regime has moved generally toward greater liberalization, eliminating an oil export quota and special exporter regime and export tariffs. However, the government, especially recently, has also taken a number of restrictive measures and dragged its feet on further trade reform. The government lowered peak tariffs to 30 percent and average weighted tariff rates to 14-15 percent. After the 1998 financial crisis the government introduced a 3-percent import surcharge (later lifted from critical food imports). Export tariffs on several categories of raw materials were reintroduced as a revenue measure in 1999. The Duma also enacted direct limits on imports of alcohol. Although the government has officially welcomed foreign investment, the Duma is considering laws that would limit foreign investment in some service sectors, including insurance, auditing, tourism and some sectors connected to national security. Russia joined the Asia-Pacific Economic Cooperation group in 1998. The government is pursuing accession to the World Trade Organization agreement, but has made little or no progress in recent years. While the government is committed to further integration into the world economy, making the necessary reforms has proved politically difficult.

Russia's intellectual property rights (IPR) legislation provides protection for patents, copyrights, trade and service marks, and semiconductor chip designs. However, it mandates excessive evidentiary requirements for civil suits and does not provide retroactive protection of copyrights. Pervasive problems remain in enforcement, although some signs of greater initiative on the part of law enforcement bodies appeared in 1999. Russia remains on the U.S. Special 301 priority watch list. In 1998, Russia established a Patent Chamber, a specialized court for appellate review of patent disputes. The United States and Russia have formed a bilateral working group to address IP issues.

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's record in protecting internationally recognized human rights has been uneven. In February 1995, Russia was admitted to the Council of Europe and, as a result, will be subject to the jurisdiction of the European Court on Human Rights.

Freedom of expression and of the media is now well established in Russia, with the print and broadcast media reflecting a wider diversity of political views than under the Soviet period. Nevertheless, there are reports of government pressure on the media. Some journalists have been killed and kidnapped and the government has been lax in investigating these crimes. There is also some concern that ownership of the major television stations is being concentrated in the hands of a small circle of competing businessmen.

Restrictions on freedom of movement, imposed through modifications of the *propiska* or "residence permit" system, remain a serious human rights concern. In the wake of bombings of two apartment buildings the mayor of Moscow condoned the forced removal of several thousand people who appeared to be of ethnic Caucasus background and who lacked residence permits to live in the city. The rules were selectively enforced, with darker-skinner persons, often from the Caucasus and Central Asia, forming a disproportionate number of the deportees. There were also credible reports of people of Caucasus origin who possessed valid residence permits being forced by local officials to leave Moscow and other large cities.

Religious freedom has flourished in Russia since independence, with a variety of faiths experiencing tremendous growth. However, over the past few years about one-quarter of Russia's regions have adopted restrictions designed to limit the activities of religious minorities and foreign missionaries. In September 1997, President Yeltsin signed a law "On Freedom of Conscience and Religious Associations," that restricts religious freedom and introduces significantly more government regulation over religious organizations. Russian officials have pledged that implementation of the law will be consistent with Russia's international commitments to religious freedom and have taken significant steps to ameliorate some of the law's negative aspects. However, despite the federal government's efforts to implement the law liberally, restrictions have continued at the local level. The vagueness of the law and regulations, contradictions between federal and local law, and varying interpretations of the law have furnished regional officials with a pretext to restrict the activities of religious minorities. The Supreme Court has ruled against local attempts to restrict regulation of religious groups, but upheld restrictions on registering groups in Russia less than 15 years. The Duma failed to take action by the end of the year to extend the time allowed for groups to register, but is expected to take up legislation in 2000. The U.S. Government and NGO community are monitoring this closely.

The Jewish community has had a mixed experience, facing the same obstacles as other religious communities, as well as its own problems. It has met with some success on communal property restitution, and former President Yeltsin and Acting President Putin both expressed support for government efforts to combat anti-Semitism. However, the Russian leadership's failure to speak out promptly following the stabbing of a Jewish community leader in mid-1999 was disappointing. Many Jews continue to encounter societal discrimination, and government authorities have been criticized for insufficient action to counter it. There have been reports of a rise in anti-Semitic rhetoric, particularly during the recent Duma election campaign. Incidents of violence against Jews and Jewish property, including bombings, stabbings, and beatings, continue to occur.

Lack of respect for due process remains a serious shortcoming. Russian prisoner's rights groups have documented cases in which members of the security forces tortured and beat detainees and prisoners, and in 1998 the President's Permanent Human Rights Chamber found that torture was "widespread and systematic," especially in the pre-trial phase. Suspects are routinely detained for 12-18 months in pre-trial detention centers; conditions there and in regular prisons are deplorable. Criminal procedures in regions where juries have not been introduced are still weighted heavily in favor of the prosecution. In one case with numerous due-process violations that appears to be politically motivated, environmental activist Aleksandr Nikitin was held without charge for nine months in 1996. An October 1998 trial in St. Petersburg concluded that the evidence provided by the prosecution did not support the indictment, and the Supreme Court in February 1999 upheld this judgment. However, a new trial was convened in November 1999. Nikitin was acquitted of the charges against him on December 29.

The Russian Government has made and continues to make steady progress in developing policies and practices that provide its citizens with rights to foreign travel and emigration that conform with internationally recognized human rights norms. The right to travel, which is enshrined in Russia's 1993 constitution, was codified in 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 commitment to allow its citizens the right to travel abroad, to emigrate, and to return to Russia. However, the law also describes circumstances under which the Russian Government can deny the right to travel to Russian nationals who, during the course of their work, had access to "secret," "top secret," and "highly sensitive" material. Such individuals can be refused permission to travel abroad for up to ten years following the last date of access to such material.

According to the U.S. Embassy in Moscow, the time for processing applications for Russian nationals with passports who wish to travel to a foreign country or who wish permanent residence abroad is 2-6 months. The time for processing applications for Russian nationals who wish to emigrate and who do not already have a passport averages from four to five months.

Tens of thousands of Russian citizens emigrate annually. In FY 1997, approximately 7,600 Russian citizens emigrated to the United States. The number of state secrecy and other cases on the listings of "refuseniks" maintained by American Jewish organizations has decreased from over 1000 in the late 1980's to around 20 in 1998.

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 its commitment to uphold all OSCE principles, including those governing territorial integrity, national sovereignty, non-use of force and the peaceful settlement of disputes.

Responding to attacks on Dagestan in July and August by maverick Chechen field commander Shamil Basayev, and to the bombing of apartment buildings in Moscow and elsewhere, the Russian Government launched a military campaign to assert control over Chechnya. The excessive and indiscriminate use of force by government forces in the conflict with insurgents in Chechnya resulted in widespread civilian casualties and the mass displacement of up to 200,000 persons, the vast majority of whom sought refuge in Ingushetiya. The Russian Government allowed a visit to the North Caucasus in December by the OSCE Chairman in Office as agreed to in the November Istanbul Summit Declaration. However, it has not followed through on the agreement reached at Istanbul that the OSCE could play a role in helping establish a political dialogue. Russia has declined offers of assistance in mediating a political solution to the conflict, claiming that its fight against terrorist groups justifies its military actions.

Outside Chechnya, the North Caucasus remains a dangerous region, as evidenced by the November 1998 kidnapping of an American citizen in Dagestan. In December 1996, six medical workers from the International Committee of the Red Cross (ICRC) 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 ICRC. Kidnappings and assassinations, some politically motivated, have also occurred regularly in Chechnya since the early 1990s.

Russian leaders have called for enhanced efforts by the UN and the OSCE in peacekeeping, including in the NIS. Russia has, to varying degrees, been supportive of OSCE missions and UN peace efforts in Azerbaijan (Nagorno-Karabakh), Estonia, Georgia, Latvia, Moldova, Tajikistan, and Ukraine.

In some cases, Russian forces and military equipment left stationed on the territory of neighboring states have complicated ethnic conflicts in these states, particularly in Moldova where Russian troops previously intervened on behalf of separatist forces in Transnistria.

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 Commonwealth of Independent States (CIS), preserving Russia's influence in the region of the former Soviet Union and defending the interests of ethnic Russians in neighboring states. In 1998:

Russia continued 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.

Georgian leaders stated that, in their view, the Yeltsin Administration does 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. Moscow has been supportive of Georgian claims and is willing to press the Abkhaz to negotiate seriously toward a settlement.

With regard to Russian forces in Abkhazia, at the OSCE Summit (November 18-19, 1999), Georgia secured a Russian commitment to remove all armored vehicles and artillery limited by the CFE Treaty from the Gudauta base in Abkhazia (as well as from Vaziani/Tbilisi) by December 31, 2000 and to disband the Gudauta and Vaziani bases entirely by July 1, 2001. Russia also committed to resolve other aspects of the Russian military presence in Georgia during the year 2000.

Russia, the United States and France co-chair the Minsk Group peace process, which is the OSCE's negotiating forum for a peaceful settlement of the Nagorno-Karabakh conflict. Cooperation among the co-chairs has been excellent. The Minsk Group has been actively negotiating with the parties to reach a durable settlement. A Russian-brokered cease-fire has been in effect in Nagorno-Karabakh since May 1994 and has held, despite sporadic violations.

President Yeltsin visited Kiev in May 1997 and signed a Friendship and Cooperation Treaty with Ukraine that has been ratified by both countries. The two sides also concluded agreements to resolve the issue of the Ukraine-based Black Sea fleet, which had been a source of disagreement since 1992. The two countries have still not formally demarcated their interstate border, although border issues have not been a source of contention in recent years.

Russia played a significant role in facilitating the peace process in Tajikistan that led to the conclusion of a comprehensive settlement in June 1997. 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. Its activities support both the current regime and Russia's interests in the region. Cooperation exists between Russian and Tajik Government forces. Russian Border forces also dominate the multi-national CIS forces guarding the Tajik-Afghan border and which include personnel from Tajikistan, Kyrgyzstan, Uzbekistan, and Kazakhstan.

Moldova reached a bilateral agreement with Russia at the OSCE Summit in Istanbul (November 18-19, 1999) regarding the withdrawal of Russian forces from Moldova. In the CFE Final Act, the Russians committed to withdraw or destroy Russian conventional armaments and equipment limited by the CFE Treaty in Moldova by the end of 2001. In the OSCE Summit Declaration agreed to by all 54 participating States, Russia committed to complete withdrawal of its forces (not just equipment limited by the CFE Treaty) from Moldovan territory by the end of 2002.

Implementation of the Istanbul commitments on withdrawal of Russian forces is likely to be politically complex and financially costly. Transnistrian separatists are reluctant to see Russian forces withdraw from the region, and Transnistrian leader Igor Smirnov has hindered or opposed such efforts in the past. The disposition of large stocks of weaponry and ammunition held by Russian forces in Moldova remains a major complication in the Russian withdrawal. The OSCE has begun steps to establish a fund for voluntary assistance to facilitate Russian withdrawal and agreed to explore the expansion of the mandate of the OSCE Mission to Moldova to encompass steps in support of the withdrawal effort.

Russian forces have been stationed in Moldova since before its independence. As of January 1, 2000, Russia's declared peacetime authorized personnel strength in Moldova was 2,346.

Russia has been generally constructive in mediating international conflicts through its participation as a cosponsor of the Middle East peace process, as a part of the international security presence in Kosovo (KFOR), as a member of the Bosnia Contact Group, and through its support of UN and other multinational initiatives in the Persian Gulf, Haiti, and Angola.

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.

On November 4, 1992, the Russian parliament ratified the START I Treaty, which entered into force December 5, 1994. The detailed work of implementing the treaty is well underway, including inspections and elimination of strategic offensive arms. Russia has eliminated substantial numbers of strategic offensive arms in its efforts to achieve required START I levels. The START I Treaty's Joint Compliance and Inspection Commission (JCIC)—in which both Russia and the United States participate—is the mechanism for resolving questions concerning implementation of the treaty. The JCIC meets regularly in Geneva and a number of implementation questions have been resolved through this mechanism. Some issues remain unresolved and will continue to be discussed in the JCIC.

The United States and Russia signed the START II Treaty on January 3, 1993. The Duma has not yet approved its ratification.

Russia has reaffirmed its commitment to the ABM Treaty at the foreign minister and presidential levels. Russia has been a leading participant in the Standing Consultative Commission. Negotiations on treaty succession and the demarcation between treaty-limited ABM systems and theater ballistic missile defense systems not limited by the treaty were concluded following the Helsinki Summit and the documents were signed in September 1997.

Russia has signed the CTBT, and cooperates with other signatories in the CTBT Preparatory Commission, meeting in Vienna, to prepare the International Monitoring System for treaty entry into force. In November 1999, President Yeltsin submitted a draft law on ratification to the Duma.

Russia ratified the CFE Treaty in 1992, and during the treaty's original reduction period (1992-1995) completed the destruction of several thousand pieces of conventional military equipment, more than any other State Party. Russia has also accepted hundreds of on site inspections of its forces under CFE, as required. Senior Russian policy makers have continued to emphasize Russia's commitment to the treaty. Nonetheless, during the period since entry into force of CFE, there has been a range of concerns about Russian CFE compliance, perhaps most notably with regard to compliance with CFE's restrictive limits in the flank region. The 30 States Parties agreed to address Russia's desire for greater flexibility in that area in the 1996 CFE flank agreement, which Russia ratified in 1997, the year it entered into force. The flank has been a region of continuing concern, however, and Russia again sought further flexibility on flank limits, particularly in the category of armored combat vehicles, in the CFE adaptation negotiations. Russia was an active participant in the CFE adaptation talks during 1997-1999, which culminated in November 1999 with signature by representatives of the 30 CFE states of an agreement on CFE Adaptation at the Istanbul OSCE Summit. To facilitate closure, Russia and many other CFE states made specific commitments in the accompanying CFE Final Act. Among the most important of these are agreements on withdrawal of Russian forces from Moldova and Georgia, and the reaffirmation of Prime Minister Putin's November 1 commitment that Russian forces in the CFE flank region will return to the flank levels contained in the adapted Treaty as soon as possible. Among current compliance concerns, perhaps the most significant is the fact that Russian forces in the flank currently exceed both existing CFE flank ceilings and the flank ceilings contained in the adapted Treaty, the latter largely as a result of the conflict in Chechnya. Also of particular regional concern are issues relating to transfer or reassignment of CFE equipment entering Armenia. Finally, although Russia has made considerable progress this year toward completing the separate, non-CFE political commitment to destroy or convert several thousand pieces of CFE-type equipment east of the Ural Mountains (outside the CFE area), that process will not be completed on schedule by the end of 1999. We expect that Russia, the U.S. and other CFE states will continue to review actively all these issues, and other more technical points, both bilaterally and in the context of the CFE Joint Consultative Group, the forum established by the treaty to consider implementation concerns. In addition, Russia shares with Ukraine a joint reduction obligation related to naval infantry and coastal defense forces (NI/CD). This obligation, which derives from a CFE Treaty-related document, has not been fully met, although Russia has made significant progress on its share of these reductions this year.

In November 1997, Russia ratified the 1993 Chemical Weapons Convention (CWC), which calls for the eventual elimination of chemical weapons. In April 1997, the Duma passed a law on destruction of chemical weapons. A legislative framework is now in place for the implementation of the CWC. In 1999, however, Russia requested an extension of the CWC's first destruction deadline because a lack of adequate funds is hampering timely compliance with CWC timelines for the destruction of chemical weapons and production facilities. Russia has so far made little progress in meeting its destruction obligations, and elimination of its stocks has not yet begun. Russia has submitted its declarations in a timely fashion, although the U.S. has concerns about their completeness.

The United States and other nations are providing some assistance to help Russia meet its CWC commitments. The United States and Russia signed a Plan of Work on January 7, 1994, which paved the way for Cooperative Threat Reduction (CTR) or "Nunn-Lugar" assistance to help Russia develop a comprehensive CW destruction program and to assist Russia in equipping a central CW destruction analytical laboratory; U.S. assistance funding to date for this effort totals \$192.1 million. Also a part of this effort, the United States and Russia are cooperating to construct a pilot destruction facility that utilizes Russian technology to neutralize chemical agents through chemical processes, although Congress has cut off future funds for this effort based on the slow speed of Russian spending on infrastructure aspects of the project. The European Union and Germany have recently increased their assistance to Russia's CW destruction program.

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 prohibiting all activities that contravene the BWC.

Since September 1992, U.S. and UK officials have met on several occasions with their Russian counterparts to discuss the BW issue. To date, some, but not all, of the confidence-building activities adopted as part of the September Trilateral Statement have been carried out satisfactorily. The U.S. Government 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 continue to have significant concerns about Russia's current arms control compliance in some areas, notably biological and chemical weapons, and in regard to Russia's current overages of the higher CFE flank limits on its own territory. However, we believe that, on balance, Russia has adhered to its arms control obligations, and, indeed, many concrete steps have been taken since the end of the Soviet Union on December 25, 1991 to comply with relevant arms control agreements. However, the status of Russian compliance performance remains under our constant, careful review.

Reducing Forces and Expenditures: Due to extreme budgetary constraints and a changing view of Russian military needs, military spending on equipment and manpower was drastically reduced during the period of 1992-1995. During this period, Russian troop strength was cut by approximately 35 percent, while tanks, ACVs and artillery were reduced by 50 percent or greater. The requirements of the CFE Treaty and the CFE 1A Agreement on personnel limits contributed heavily to these significant reductions of Russian forces in the treaty's area of application. Since 1995, Russian personnel strength has continued to drop sharply from a level of 1.7 million authorized military personnel to a present level of roughly 1 million. However, Russian equipment levels have declined to a lesser degree in this time period as the Russian military restructures its forces in accordance with planned military reforms.

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 and to sign the CTBT in 1996. 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, which had its first full session in 1996.

Although economic difficulties have limited Russia's ability to provide resources for dismantlement activities, we believe it remains committed to making a substantial investment in dismantling weapons of mass destruction.

The government-to-government Highly Enriched Uranium (HEU) Purchase Agreement between the United States and the Russian Federation, signed February 18, 1993, provided for the purchase by the United States of 500 metric tons of HEU from dismantled Russian nuclear weapons over a 20 year period, for approximately \$12 billion.

The contract calls for the purchase of HEU in the form of LEU suitable for fabrication into fuel for commercial power reactors. Since the first delivery of LEU under the contract arrived on June 23, 1995, approximately 2200 metric tons of LEU (comprising some 72 metric tons of HEU) have been delivered to the United States Enrichment Corporation (USEC), the U.S. executive agent under the agreement. USEC became a private corporation in July 1998.

In March 1999 agreement was reached concerning the disposition of the natural uranium component of material delivered under the HEU Purchase Agreement. Under this arrangement, the U.S. Government agreed to purchase natural uranium associated with material delivered in 1997 and 1998. In a separate contract, a group of Western companies (Cameco, Cogema and NUKEM) agreed to buy the natural uranium component beginning in 1999.

Transparency procedures intended to provide confidence that the arms control and nonproliferation goals of the agreement are being met are in place and are being implemented at both U.S. and Russian facilities. In 1999 implementation of enhanced transparency measures continued at Russian HEU-to-LEU blending facilities to increase U.S. confidence that uranium purchased under the HEU Agreement is weapon-origin material.

The United States and Russia are cooperating on a variety of other initiatives and programs related to fissile materials. Among these is the bilateral initiative for disposition of excess weapon-grade plutonium. The U.S. and Russia have each declared 50 tons of plutonium excess to defense needs and in 1998 agreed to convert this material so that it can never be used for nuclear weapons. Technical cooperation aimed at identifying processes and designing facilities to implement this agreement is underway. A bilateral agreement that will provide an overall framework for cooperation on the construction and operation of industrial-scale plutonium disposition facilities is being negotiated. The U.S. is seeking participation and funding from other G-8 countries in this project.

The U.S. is also actively cooperating with Russia to improve security on fissile material stockpiles, combat illicit nuclear trafficking, and redirect the activities of weapons scientists and institutes, with the aim of reducing proliferation risks. Ad-

ditionally, in December 1999, the U.S., Russia, and the International Atomic Energy Agency began discussions on a proposed program to return fresh and spent nuclear fuel containing uranium enriched in Russia or the former Soviet Union from foreign research reactors to Russia for management and future disposition.

In 1998 a Russian decree was issued providing broad government authority over export controls. Implementing regulations have also been issued which are designed to restrict the export of sensitive technologies. In 1999, the Russian parliament passed a comprehensive law on export controls, and the U.S. continues to work closely with the Russian Government to insure that these laws and regulations are implemented and enforced. Russia and the United States are working to install internal compliance programs at individual Russian entities, including production facilities, research institutes, and other governmental and commercial enterprises involved in weapons, nuclear or dual-use item production, to help ensure that these entities fully comply with Russian export control laws and regulations.

Russia joined the Missile Technology Control Regime (MTCR) in August 1995, and has stated its commitment to missile nonproliferation, regional stability, and strict adherence to the tenets of the MTCR. In this context, we have continued our high-level engagement with Russia regarding our concerns about reports of Russian entities transferring missile-related technology to Iran. In 1998 Russia issued a preliminary report of an investigation against these entities and Russia has taken action against several of them. The Russian Government has assured us of its commitment to the highest nonproliferation standards and has told us repeatedly that it does not support Iran's long-range missile development efforts.

Russia's nuclear cooperation with Iran remains a serious concern, and intensive discussions with Russia continue in order to find a satisfactory resolution of this issue. We also continue to press the Russian Government to take additional steps against entities involved in missile-related technology transfer to Iran. In June 1998 and January 1999, the U.S. imposed administrative measures against a total of ten Russian entities involved in cooperation with Iran's missile or nuclear weapons programs. These measures -- which ban exports from the U.S. and U.S. Government assistance to, and imports into the U.S. and U.S. Government procurement from, these entities -- remain in force. We periodically receive reports potentially related to Russian transfers of material, equipment, or technology that could contribute to the ability of countries to manufacture missiles or weapons of mass destruction (WMD). We carefully review these reports in light of our legal obligations under the applicable nonproliferation sanctions laws. None of these reports has resulted in a sanctions determination on the Government of Russia for missile or WMD transfers during the reporting period.

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, 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 that adheres to international regimes, and is 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 then 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 its allies to protect their 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.

We have received reports of transfers or potential transfers of conventional weapons to state sponsors of terrorism from Russia that we have carefully reviewed in light of our legal obligations under the various proliferation sanctions laws. In March 1999 we determined that Russia had committed sanctionable activity in the realm of conventional weapons by transferring anti-tank guided missiles to Syria, but decided to waive sanctions, except against three Russian entities directly involved in the transfers. We remain concerned about Russia's arms sales relationship with Syria and continue to monitor the situation closely.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

During meetings of the U.S.-Russian Joint Commission on Economic and Technological Cooperation, Vice President Gore and then-Prime Minister Chernomyrdin affirmed their commitment to intensify cooperation to implement the concepts of sustainable development, responsible stewardship of natural resources and restoration of the environment. This commitment has remained in effect in 1999. Despite revenue shortfalls, Russia continues to make progress, albeit unevenly. A system of pollution charges levied on enterprises and utilities enables many regions and cities to meet some of their most pressing environment needs. Prosecutors have been appointed in many regions to enforce existing regulations. The tenth meeting of the commission, held in March 1998, noted the beginning of two Russian federal investment programs, called "Energy Conservation for Russia" and "Energy Conservation for the Northern Territories" which promise a significant contribution to sustainable use of natural resources, as well as commercial and economic benefits.

Regional Environmental Centers

The United States, the European Union and four host nations (Russia, Ukraine, Moldova and Georgia) are participating in the establishment of independent, non-profit, and non-political Regional Environmental Centers (RECs.) The mission of each REC will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making. The EU has the lead for the establishment of the Moscow REC, the foundation of which has been delayed by a series of bureaucratic hurdles.

Climate Change and CFCs

Russia is a member of the "Umbrella Group" of key partner nations supporting the U.S. in favoring the use of the Kyoto Protocol's market-based mechanisms, including emissions trading, the Clean Development Mechanism and joint implementation to meet national emissions reduction targets. Russia has also supported U.S. efforts to secure the meaningful participation of key developing countries in the protocol. During the Fifth Conference of Parties (COP) in Bonn, Russia strongly supported Kazakhstan's application to join Annex I of the Convention -- the first step toward adopting a greenhouse gas emissions target.

Under the Kyoto Protocol, which sets emissions allowances for the period 2008-2012, Russia agreed to stabilize its emissions at 1990 levels. As Russia's greenhouse gas levels are expected to be significantly below 1990 levels due to the collapse of its economy, the nation expects to benefit from both capital flows generated from the sale of emissions credits and Western investment in its energy sector. Russia's participation in the international emissions trading system depends upon the establishment of a reliable domestic monitoring and verification regime. Workshops on emissions trading and joint implementation were held in Moscow in June 1998 to address the creation of monitoring capability and the ability to track reductions.

The Environment Committee in its report to the U.S.-Russia Joint Commission called attention to anticipated efforts to eliminate the production of chlorofluorocarbons in Russia by the year 2001. A major step toward Russian compliance with the Montreal Protocol (on substances that deplete the ozone layer) was taken in 1998 with the conclusion of a \$27 million international assistance package that will eliminate Russian capacity to produce ozone-depleting substances by the end of the year 2000. This effort, to which the U.S. has contributed \$6 million, involves substantial commitments from the Russian Government and the seven enterprises involved. Post-phaseout oversight will extend for a period of five years. Disbursements to any enterprise are conditioned on satisfactory performance by all seven. We would also note that consumption in Russia of ozone-depleting substances has declined markedly from a peak of around 70,000 tons annually to approximately 9,000 metric tons in 1998, to an estimate of some 6,000 tons in 1999. Remaining demand after 2000 is estimated at 3,000 to 4,000 tons per year and will be met by a combination of recycling, controlled sale of reserve stocks and conversion to technologies that do not use these substances.

Radioactive Waste

At the Commission meeting this year, Vice President Gore welcomed the expansion of multilateral cooperation in addressing the problem of radioactive waste management in northwest Russia, where such materials pose an international threat. Several projects and initiatives contribute to this effort. The first established was the so-called Murmansk Initiative. The

only operational low-level liquid radioactive waste (LLRW) processing facility in Russia is located in Murmansk on the Kola Peninsula and is run by RTP-Atomflot. It has historically processed a small amount of LLRW from the Russian North Fleet. In 1994, the plant was operating near capacity, while storage capacity was virtually exhausted. Russia had no other LLRW processing capacity and, until 1993, disposed of LLRW in the Barents and Kara Seas. In 1993, an amendment to the London Dumping Convention of 1972 was introduced, which was aimed at the prevention of marine pollution by the dumping of wastes, including LLRW. All parties to the London Convention, except Russia, subsequently adopted a mandatory moratorium on all types of radioactive dumping. Russia promised to adhere to the protocol to the London Convention at the Moscow Nuclear Summit of 1996. In June 1994, to assist in realizing this, the U.S., Norway, and Russia began exploring the possibility of expanding and upgrading this facility. The agreed project will expand the capacity of this facility from 1,200 cubic meters to 5,000 cubic meters per year and will thus upgrade Russia's capability of processing LLRW from nuclear submarine decommissioning. Work on this project is 90-percent complete, and the expanded facility is planned to be operational by the spring of 2000.

A second aspect of Russian cooperation with others on elimination of transborder pollution is Arctic Military Environmental Cooperation (AMEC), a trilateral initiative among Norway, Russia and the U.S. established in 1996. Seven initial projects have been agreed to under AMEC. Five of them deal with radioactive waste and radiation monitoring while two deal with non-radioactive waste (such as petroleum and chemical management resulting from the closure of military bases). The first AMEC radioactive waste project provides for the design and construction of a prototype 40-ton cask in support of the Cooperative Threat Reduction (CTR) program. The cask will provide interim storage and transportation of spent nuclear fuel removed from submarines undergoing dismantlement. The prototype cask was tested and approved on October 1999 and is expected to go into serial production in the near future. The project will also provide a pad in northwest Russia for the temporary storage of the 40-ton casks that is scheduled for completion in summer of 2000. The completion of this project will assist Russia in meeting its obligations under START, and will eliminate bottlenecks - facilitating the CTR schedule for submarine dismantlement. Work continues on AMEC projects to develop a mobile liquid waste treatment facility, a solid nuclear waste volume reduction capability, and an improved capability for Russian interim storage of solid wastes. Another AMEC project is providing radiological health training and monitoring technologies for Russian naval officers.

The most recent initiative on radioactive waste is the Murmansk 80-ton Cask project. Russia welcomed this project when launched by U.S. Deputy Secretary of State Strobe Talbott with a pledge of \$500,000 at the January 1998 ministerial meeting of the Barents Euro-Arctic Council. Its aim is to design and construct a prototype 80-ton cask that could be used for the dual purposes of temporary storage and transportation of undamaged spent nuclear fuel (SNF) from nuclear-powered icebreakers and submarines. This material is currently stored on the Lotta (a WWII barge that stores both damaged and undamaged SNF) and the Lepse (a service ship that has been used to replace SNF, but has more recently served as a de facto storage vessel because of bottlenecks in the waste stream). This project also will provide a concrete storage pad to accommodate approximately 30 of the 80-ton casks. The site of this pad is to be in Murmansk at the RTP Atomflot facility. The total cost of this project is estimated to be between \$2.1 and \$2.5 million with funding pledged by the U.S., Sweden, Norway, Finland, and the EU. The UK is contributing separately to work with the Russian regulatory authority (GAN) on cask certification. Completion of the prototype cask is expected in October 2000 and the pad in September 2001.

Endangered Species

Trade in caviar from Caspian Sea sturgeon has been restricted under the Convention on International Trade in Endangered Species (CITES). In August 1998, former Prime Minister Kiriyenko signed a decree establishing a system of import/export controls on sturgeon and its byproducts, including caviar, to implement the recommendations of the Tenth Conference of the Parties of the CITES, and the Russian Government has taken steps to limit the Russian sturgeon harvest to 700 tons, down from 1200 tons in 1998. Conservation of sturgeon and the related sustainability of the caviar trade, as well as the survival of the Siberian tiger and other Russian biodiversity, are important areas of U.S.-Russia cooperation.

Conclusion

As noted in past reports, while inconsistencies and partial retrenchments mark Russian environmental policies, the overall thrust in recent years has been positive. U.S. Government assistance, together with that of other international sources such as the World Bank, has helped reinforce the commitment to environmental progress.

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 who have committed

acts of international terrorism or otherwise support international terrorism. The Georgian Government has requested the extradition of Igor Giorgadze, the former head of the Georgian security ministry, whom Georgia has alleged has been in Russia and was involved in assassination attempts on President Shevardnadze. Russia has not responded to this request.

The United States began conducting regular counter-terrorism consultations with Russia in June 1994, and in November of 1994, initiated dialogues on cooperation to counter nuclear terrorism, the latest round of which took place in Washington in April 1997. In 1995, Russia joined the existing G-7 counter-terrorism expert consultative structure, and participates in P-8 discussions annually. In September 1998, Russian Foreign Minister Ivanov issued a joint statement with Secretary of State Albright on terrorism. Expert level consultations on terrorism were held in Moscow in February 1999, and more are planned in 2000. Numerous exchanges between governments took place in the aftermath of September terrorist bombings in Moscow and other Russian cities, in which hundreds were killed and injured.

Russia is a party to seven of the eleven international counter-terrorism conventions and initiated UN consideration of a proposed twelfth convention to combat nuclear 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 (NIS) 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 Newly Independent States have signed protocols with Russia under which Russia agreed to pay the outstanding foreign debt of the former Soviet Union in return for its external assets.

In 1997, Russia reached agreement in principle with the "London Club" of commercial creditors for the rescheduling of about \$30 billion in commercial debt. In these negotiations, Russia sought to restructure amounts owed to banks but not insured by official guarantees, arising from their loans to or other claims on the former Soviet Union. Principal of approximately \$25 billion and the majority of past due interest were 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 1999, Russia missed several payments due to London Club creditors, but it is working with the London Club to secure a "framework agreement" for a timetable and procedure for paying this debt.

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 Presidents Yeltsin and Clinton in March 1992. President Yeltsin and the late General Dimitriy Volkogonov, former head of the Russian side of the Commission, pledged their full cooperation. President Yeltsin 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. This level of U.S.-Russian cooperation on POWs/MIAs was unprecedented.

In March 1996 General-Major Vladimir Zolotaryev became the Russian Chairman of the Commission, replacing General Volkogonov. In December 1998 General Roland Lajoie became the U.S. Chairman, replacing Ambassador Malcolm Toon, who had served as U.S. Chairman since the Commission's inception.

As of September 1996, the U.S. side had visited all twelve capitals in Eastern Europe and Eurasia in search of information on missing American servicemen. In November 1999 General Lajoie led a U.S. delegation to Moscow for the Commission's fifteenth plenary session.

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."

Russian-Cuban ties have changed dramatically since the end of the Cold War. In 1991, Moscow ended its \$4 billion a year subsidy of the Cuban economy. In 1992, Russia halted construction of the Juragua nuclear power plant near Cienfuegos, Cuba. Russia does maintain a credit line for mothballing parts of the facility completed before suspension. We continue to monitor the status of the Juragua facility.

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, non-preferential 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 in support of the Lourdes signal intelligence facility. The oil-for-sugar barter is an agreement to exchange Cuban sugar for Russian oil, with the quantities pegged to market values for each commodity. Reports of oil shipments totaling 3 million metric tons authorized by the Russian Government to Cuba as compensation for the use of Lourdes intelligence facility remain under review to determine whether the U.S. Government is required to reduce certain assistance to Russia pursuant to the provisions of Section 498A(d)(1) of the Foreign Assistance Act of 1961, as amended.

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 uneven in some areas, and the newly adopted law on religion is grounds for concern, 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. Russia is a Party to the NPT, CWC and BWC, and the Russian Government has demonstrated a 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. We periodically receive reports potentially related to Russian transfers of material, equipment, or technology that could contribute to the ability of countries to manufacture missiles or weapons of mass destruction. We carefully review these reports in light of our legal obligations under the applicable nonproliferation sanctions laws. None of these reports has resulted in a sanctions determination on the Government of Russia for missile or WMD transfers during the reporting period.

Section 498A(b)(4): Is the Government of Russia "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control 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 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 non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance 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. 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, and from Latvia and Estonia in 1994. Russia ceased operating its radar facility at Skrunda, Latvia in October 1999, as called for in a bilateral agreement. Dismantlement of the Skrunda facility is underway and is expected to be completed on schedule.

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 comprehensive peace accords signed on June 27, 1997, ended years of civil conflict and set the stage for Tajikistan's transition from a Soviet-type dictatorship to a more democratic form of government. Though key elements of the central government remained dominated through 1999 by President Rahmonov and other Tajiks from his native Kulyab region (who were central to the pro-government side during the war), the United Tajik Opposition (UTO) held about 30 percent of high-level government positions—as called for by the peace accords. The government-UTO coalition cooperated effectively on some key issues, such as the crisis caused when Uzbek militants, operating from Tajikistan's territory, invaded Kyrgyzstan and took hostages.

As called for by the peace accords, Tajikistan held a referendum on amendments to the Constitution in September 1999, and presidential elections in November 1999. On both occasions, observers noted serious flaws in the conduct of the voting: ballot secrecy was not protected, polling staff were partisan, and the government exercised a virtual monopoly over the mass media, giving little or no access to opposing viewpoints. By late 1999, it was not clear that preparations for parliamentary elections scheduled for early 2000 would meet the minimum standards required to merit international observation of the elections by the Organization for Security and Cooperation in Europe (OSCE). The law on parliamentary elections, approved by the parliament in December 1999, is flawed in areas such as media access, campaign funding, criteria for disqualification of candidates, exclusion of independent domestic observers, and treatment of suspect election results. However, Tajikistan does have a legal opposition, and six different parties (a pro-government one as well as a number of genuinely independent opposition parties) had registered for the parliamentary elections by the end of 1999.

Implementation of other elements of the peace accords continued in 1999, although deadlines continued to slip. The military element of the peace accords progressed from Phase I (relocation of opposition fighters to designated assembly areas and registration) to Phase II (suitability assessment for integration into national armed forces). The cease-fire has effectively held, putting an end to the low-intensity insurgency against the government carried out by the armed opposition. Of growing concern were UTO-affiliated field commanders who became increasingly independent and unresponsive to the UTO leadership. In the capital of Dushanbe, rival pro-government field commanders competed for control over retail markets and the drug trade, with members of their private armies occasionally skirmishing. While the absence of full-scale military conflict and the reduced level of violence allowed the government's human rights record to improve somewhat, serious problems remain. Freedom of the press continues to be severely restricted, as the government controls both press and broadcast facilities. However, violence against journalists, which flared during the civil war, has largely abated. Freedom of assembly remains limited. The rule of law is applied unevenly at best, and the government has used the legal system to raise criminal charges against individuals that oppose it.

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)."

This year's civil war—which severely damaged Tajikistan's already-weak economic infrastructure and caused both industrial and agricultural production to fall sharply—distracted the government from serious economic reform. In the previous few years, however, 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 subse-

quently 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. In 1996 the government introduced measures designed to increase private agricultural production. The government has made significant progress during the past few years in achieving macroeconomic stabilization. As a result, GDP grew in 1997, 1998, and 1999. Government revenue remains highly dependent on the cotton and aluminum industries, which operated at far below full capacity in 1999.

Much needs to be done to advance Tajikistan's transition to a market economy. Most small-scale enterprises have been privatized, but privatization of medium- and large-scale enterprises has yet to begin in earnest. Accordingly, almost all major economic concerns remain under state control. The high inflation of 1995 that followed the introduction of the new currency slowed dramatically in 1996, thanks to adherence to IMF recommendations. After an increase in inflation in 1997, the government maintained fiscal and budgetary discipline in 1998 and succeeded in achieving macroeconomic stabilization. Though the government has been chronically behind in paying salaries and pensions, most were paid in 1999. In June 1998, the IMF approved a three-year Economic Structural Adjustment Facility (ESAF) in the amount of \$128 million, which was later augmented to \$134 million. A second annual loan, in the amount of \$40 million, was approved in July 1999 to be disbursed quarterly. Tajikistan has achieved economic growth with low inflation under the ESAF. The World Bank has concluded several agreements with Tajikistan, including a \$50 million loan agreement in September 1996, two \$10 million tranches of post-conflict transition support in 1997, and a \$50 million Structural Adjustment Credit in July 1998.

Tajikistan is a member of the IMF, IBRD, and the EBRD. An Overseas Private Investment Corporation (OPIC) agreement entered into force in 1992. A 1993 bilateral trade agreement between Tajikistan and the United States provides reciprocal Normal Trade Relations (formerly MFN) benefits and contains intellectual property rights provisions. Tajikistan has not applied to join the World Trade Organization.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The serious human rights violations by both the government and the armed opposition that were rampant during the most intense period of civil conflict largely came to an end with the effective observation of a general cease-fire between the two sides. Though these armed confrontations between government and UTO forces have ended, a number of extra-judicial killings took place. Assignment of blame was usually not possible, but it is safe to assume that some killings were committed by government forces, some by the UTO, and some by independent warlords with loyalty to neither. A number of local officials, businessmen, and military officers were killed in this way. 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 by 1998 the final tranche of refugees finished returning to their homes. The government has now turned its attention toward working 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), and those who sought refuge in other neighboring states. Some of this latter group may have settled in their new homes as economic migrants and have no intention of returning to Tajikistan at this time.

Retribution against returnees by local militias did not take place as originally feared, and the government has made positive efforts to resolve the cases of returnees whose homes had been occupied during their absence. Persons from Kulyab continue to be favored over those from other regional clan groups and some harassment of those from the opposition-stronghold areas of Gharm and Pamir continues. Fear about the future as well as linguistic and employment discrimination against the Russian minority led to significant out-migration of this group during the civil conflict. This trend has slowed significantly in recent years, for a number of reasons: the return of stability; the fact that most of those with family in Russia have already left; and a 1996 agreement with Russia permitting dual citizenship.

According to the constitution, Tajikistan is a secular state, and church and state are separate. Religious freedom is guaranteed by law. While Islam is the majority religion, minority religions enjoy both government and individual tolerance. Although, there are no reports of official discrimination against religious minorities, religious communities must register and are monitored to ensure that they do not become overly political. The Russian Orthodox Church, a Roman Catholic parish, a Jewish synagogue, and a Baha'i temple function in Dushanbe. One issue of contention is the apparent goal of Islamists to make Tajikistan an Islamic state, as President Rahmonov has aggressively defended secularism and occasionally criticized

Islam as a political threat. However, leading Islamist figures of the UTO have downplayed the issue, saying that Tajikistan is not ready to become an Islamic State.

Tajikistan has no law on emigration. Tajik nationals who wish to travel abroad must obtain an exit visa. With occasional prominent exceptions, the government does not appear to withhold exit visas for political reasons. Those wishing to emigrate must notify the appropriate authorities and obtain required documentation. Most of those who fled Tajikistan for political reasons after the civil war have largely returned safely, including most of the prominent opposition leaders who for some years had remained 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 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 throughout 1999. The government has not yet established a human rights ombudsman as recommended by the OSCE, despite its statement in 1996 that it would do so. The government has, however, permitted human rights organizations such as Human Rights Watch to establish offices and operate in Tajikistan.

Tajikistan has outstanding border disputes with Kyrgyzstan and China, but neither has erupted into armed conflict, nor are they likely to. There were minor clashes between the border guards of Uzbekistan and Tajikistan in late 1999, but those clashes have not escalated into anything more serious. Irredentist rhetoric about the largely ethnic Tajik cities of Samarkand and Bukhara (located in present-day Uzbekistan) has not been taken seriously by the government. Tajikistan is still in the process of forming a national military as it integrates UTO fighters with government forces—it has neither the capacity nor any apparent intention to pursue aggressive actions against its neighbors. Tajikistan has been an active participant in regional dialogues and cooperative peacemaking efforts. However, most of its efforts at conflict resolution have been domestic: participating in the inter-Tajik peace negotiations, seeking reconciliation following its own civil war.

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. A three year UN-mediated negotiating process of peace talks with the Tajik opposition led to the June 27, 1997 signing of comprehensive peace accords and the creation of a Commission on National Reconciliation chaired by opposition leader Nuri. In 1999, Tajikistan continued to make progress on implementation of these accords, though almost all of the deadlines slipped and the conduct of some requirements - such as the constitutional referendum and presidential elections - left much to be desired. The government cooperates with the United Nation Mission of Observers in Tajikistan (UNMOT) which monitors the implementation of these accords and may observe the 2000 parliamentary elections.

The Tajik conflict is primarily a regional and clan-based struggle. Although the population is 25 percent ethnic Uzbek, and 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.

In the fall of 1999, the Government of Tajikistan, including its UTO elements, cooperated with the Governments of Kyrgyzstan, Uzbekistan and the Russian Federation in resolving a hostage crisis in southern Kyrgyzstan caused by a group of Uzbek militants operating out of Tajik territory. The Tajik Government claims to have held negotiations with the militants, which led to their permanent relocation to Afghanistan. However, some of these militants may remain in Tajikistan, Kyrgyzstan, and Uzbekistan. During the crisis, unidentified (but probably Uzbek) aircraft bombed locations in Tajikistan, but Tajikistan did not attempt to retaliate.

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 party to the Treaty on the Non-Proliferation of Nuclear Weapons as a non-nuclear-weapons state 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 is a party to the 1993 Chemical Weapons Convention. Tajikistan has taken steps to establish a basic framework for export controls including adoption in 1997 of an export control law. The border with Afghanistan is porous and cross-border arms transfers have occurred, with Russia and Iran using airfields in southern Tajikistan as staging points for supplying weapons to the anti-Taliban alliance in northern Afghanistan.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant trans-border 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. . Tajikistan joined the other Central Asian states in a recent decision to locate the headquarters of a Regional Environmental Center (REC) in Almaty, Kazakhstan. The United States and the European Union are supporting and co-financing the establishment of this independent, non-profit, and non-political organization, the mission of which will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

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 that have committed acts of international terrorism or otherwise support international terrorism. Although not condoned by the government, Islamic extremist groups have operated from Tajikistan in areas that are not under complete government control. Tajikistan has been critical of the Taliban in Afghanistan for harboring Usama bin Ladin, and openly opposes his brand of Islamic terrorism. Tajikistan is a party to five of the twelve international counter-terrorism conventions.

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 (FSU). 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 foreign debt of the FSU in return for all the external assets of the FSU. In December 1993, Tajikistan signed a "zero option" agreement with Russia under which Russia agreed to pay Tajikistan's share of the foreign debt of the FSU, in return for Tajikistan's share of the external assets of the FSU.

Please see Section 498A(a)(9) of the Russia section regarding indebtedness to the United States incurred by the former Soviet Union.

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 that was established in March 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 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 owing to ongoing civil strife, the government has taken efforts to address some aspects of the situation. In some areas, especially political violence, abuses have decreased since the end of the civil conflict. 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 failed to take action to facilitate 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 such determinations were made with respect to Tajikistan in 1999.

Section 498A(b)(4): Is the Government of Tajikistan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991?"

No.

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 non-market-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 U.S. Government is not aware of the Government of Tajikistan providing assistance for, or engaging in any non-market-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 remains a one-party state dominated by its president and his closest advisors. Despite President Niyazov's commitments during and after his April 1998 visit to the U.S., the Government of Turkmenistan has failed to take any concrete steps to strengthen the rule of law and political pluralism. The 50-member unicameral parliament (Mejlis) has no genuinely independent authority, and in practice the president controls the judicial system. Seriously flawed parliamentary elections held on December 12, 1999 included only government-selected candidates and did not allow for any free political discourse; turnout was announced at 98.9 percent, despite reports that many polling places remained empty throughout the election day. Five years after a 1994 referendum of questionable constitutionality extended President Niyazov's term of office to ten years (until 2002), the Mejlis extended his presidency indefinitely on December 28, 1999, in response to a unanimous resolution by the annual People's Council that he be made president for life.

The Government of Turkmenistan severely restricts freedom of speech and does not permit freedom of the press. There is no organized political opposition in Turkmenistan, and individual opposition figures are regularly harassed and/or imprisoned for their activities. The government completely controls the media, censoring all newspapers and domestic electronic media and rarely permitting independent criticism of government policy or officials. The government registered no new political parties in 1999; the only officially registered party is the Democratic Party (formerly the Communist Party of Turkmenistan). Freedom of peaceful assembly and association are restricted in practice. The government does not allow any public meetings or demonstrations involving a political agenda or criticism of government policies. In practice, the government also prevents private political meetings and gatherings from taking place.

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 series of macroeconomic reforms, which covered, among others, the three key reforms recommended by the IMF: control of the expansion of credit, limited national budget deficits and liberalized foreign exchange. 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. The economy, however, remains predominantly under state control. In 1997, the World Bank approved \$64 million in projects for Turkmenistan in the areas of urban transport and water supplies.

Turkmenistan has laws on foreign investment, banking, property ownership and intellectual property rights, but respect of contracts remains an issue. The government introduced its currency, the manat, in November 1993, which has helped it establish an independent monetary policy. A bilateral trade agreement providing for reciprocal Normal Trade Relations (formerly MFN) and containing intellectual property rights (IPR) provisions entered into force October 1993. An Overseas Private Investment Corporation (OPIC) agreement entered into force in June 1992. Turkmenistan is a member of the IMF, EBRD, and IBRD. Turkmenistan has not applied to join the World Trade Organization.

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 record on respect for internationally recognized human rights is poor. Although documented cases of extra-judicial killings have been rare in Turkmenistan, one prominent prisoner of conscience did die in prison under suspicious circumstances during 1999. Authorities routinely beat criminal suspects, prisoners, and witnesses before and after trial. The government restricts civil and political rights, and security agents have used force to suppress political opposition. Others who have protested government policies and economic conditions reportedly remain in psychiatric hospitals. 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. Recent legal amendments provide greater religious freedom, but tighten government control over religious groups. Religious congregations are technically required to register with the government. The requirement that religious organizations have at least 500 members has prevented all but two religions, Russian Orthodox Christianity and Sunni Islam, from registering. During 1999, the Turkmen Government regularly harassed and disrupted the activities of minority religious faiths, sometimes destroying their place of worship. The faithful also have been imprisoned, beaten and/or pressed to renounce their faith.

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 general means of restricting international travel by its critics. While most citizens of Turkmenistan are permitted to emigrate without undue restriction, some government opponents have been denied the opportunity to emigrate.

The Institute for Democracy and Human Rights (IDHR) was founded in 1996 with a mandate to support democratization and monitor the protection of human rights. While an IDHR investigation of poor prison conditions led to a general amnesty, the Institute is not independent of the government. Initial hopes that the IDHR would serve as an ombudsman for the people have not been realized.

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 has a proclaimed policy of neutrality towards other nations and has done nothing inconsistent with its OSCE obligations to refrain from the threat of the use of force and to settle disputes peacefully. Turkmenistan is at peace with its neighbors. The Turkmen military does not currently present an offensive threat to the region. Turkmenistan complies with the Confidence and Security Building Measures (CSBM) in Europe of the 1994 Vienna Document, regularly submitting CSBM declarations and undergoing a CSBM inspection in February 1998.

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. The Turkmen Government hosted peace talks among the various Tajik parties, and it has played an active role in the UN-brokered dialogue on an Afghan settlement.

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 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. 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 party to the 1993 Chemical Weapons Convention and a party to the Biological 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 one of the best developed systems 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. President Niyazov currently holds the rotating presidency of the Interstate Fund on the Aral Sea, made up of the five Central Asian states and several international organizations secretariat, and the Fund's executive committee has its seat in Ashgabat at present.

Turkmenistan joined the other Central Asian states in a recent decision to locate the headquarters of a Regional Environmental Center (REC) in Almaty, Kazakhstan. The United States and the European Union are supporting and co-financing the establishment of this independent, non-profit, and non-political organization, the mission of which will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

Turkmenistan is currently engaged in talks with Russia, Azerbaijan, Kazakhstan 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 that have committed acts of international terrorism or otherwise support international terrorism. On June 25, 1999, Turkmenistan ratified the 1997 Convention for the Suppression of Terrorist Bombings. This convention will not take effect until ratified by the minimum required number of signatories. Turkmenistan is not a party to any of the remaining eleven international counter-terrorism conventions.

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 July 1992, the Government of Turkmenistan signed a "zero-option" agreement with Russia under which Russia will pay Turkmenistan's share of the external debt of the former Soviet Union (FSU) in return for Turkmenistan's share of the external assets of the FSU.

Please see Section 498A(a)(9) of the Russia section 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 that was established in March 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 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 broad and serious violations of human rights discussed above and continues to make human rights issues a central and consistent 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 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information indicating that the Government of Turkmenistan is prohibited from receiving such assistance by these statutes.

Section 498A(b)(5): Has the President determined and certified within 30 days to the appropriate congressional committees that the Government of Turkmenistan "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Turkmenistan 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 not aware of any information that the Government of Turkmenistan is providing assistance for, or engaging in any non-market-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 has made progress in building a democratic society since gaining independence in 1991. The 1994 election of former Prime Minister Leonid Kuchma to the Presidency in a run-off election against incumbent Leonid Kravchuk constituted the first peaceful, democratic, contested transfer of executive power in independent Ukraine and, indeed, in the former Soviet Union. Ukraine's second parliamentary elections were held in March 1998. Domestic and international observers concluded that the elections, in which left-wing opposition parties won a plurality of the seats, were free and fair. Nonetheless, there were reports that the government interfered with the electoral process, increased pressure on the media, and may have manipulated the judiciary in connection with the overall electoral process. Kuchma was reelected in November 1999, Ukraine's third presidential election. International monitors again criticized government manipulation and harassment of the media. In particular, they cited an imbalance of coverage in favor of Kuchma on state television, and government pressure on STB, the only independent television station that attempted to cover the campaign objectively. The monitors also criticized the involvement of government officials in the election campaign, including efforts by local officials to harass the campaigns of opposition candidates. Their report noted that three governors from regions where Kuchma fared worse than expected in the first round were fired immediately thereafter. At the same time, the monitors also stated that Kuchma's decisive victory appeared to have reflected the will of the electorate. Kuchma won with over 56 percent of the vote, compared to 38 percent for his communist rival, an important endorsement by the Ukrainian people of continued political and economic reform and a pro-Western orientation, policies which Kuchma stood for. After the election, Kuchma chose a reformer, Central Bank head Viktor Yushchenko, as Prime Minister.

The Ukrainian constitution provides a good legal framework for protecting civil and political rights. However, many constitutional provisions still await the passage of enabling legislation. Because of this, actual human rights practices often do not conform to constitutional requirements. An area of particular concern is media freedom. Government interference with the media has been particularly noteworthy during election periods, but is present at other times as well. Libel laws that favor plaintiffs and punitive damage awards have threatened the existence of independent media outlets, as has financial pressure from Ukraine's "oligarchs," who have used the wealth gained from government contacts to build media empires that in turn support their political interests. Corruption remains a serious threat to Ukraine's young democracy, infecting its institutions and inhibiting needed reforms. The constitution mandates an independent judiciary, headed by a Constitutional Court that determines the constitutionality of laws and acts by all branches of government. In practice, however, the courts remain subject to considerable political interference, and are at best a weak check on the power of the executive branch. The legislative branch, the Rada, has been a more effective check, with the unfortunate side effect that its left-wing leadership has been able to block or delay needed market reforms. Ukraine's civil society is increasingly a factor in Ukrainian political life. For instance, a Ukrainian NGO, the Committee of Voters, provided thousands of domestic monitors during the 1999 presidential election. Nonetheless, despite this progress, the lack of government accountability to the electorate remains a weakness in Ukraine's democracy.

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 important progress in creating an economy based on market principles, private ownership and integration into the world economy, but much work remains to complete the transition. The Kuchma

administration's chief challenge in economic policy is to put Ukraine firmly on the path to economic growth. The International Monetary Fund (IMF) supported the government with \$760 million under a Structural Transformation Facility agreement and subsequently with a series of Stand-by Arrangements in 1995, 1996, and 1997. Ukraine succeeded in arresting hyperinflation, unifying and stabilizing the foreign exchange market, substantially liberalizing prices, ending most government subsidies and eliminating export quotas. However, stalled reforms and the effects of the Asian financial crisis forced a suspension of the 1997 Standby and most World Bank lending in February 1998 and pushed the country close to financial crisis. After difficult negotiations, the government concluded an ambitious, 3-year Extended Fund Facility (EFF) with the IMF in September of 1998. However, continued slow progress on structural reform, the lack of foreign investment, and the economic turmoil in Russia kept Ukraine's economy in a precarious position. Real GDP fell at approximately 3 percent in the first half of 1999. However, the decline slowed as the year progressed and appeared to have bottomed out. Industrial output actually showed positive growth in the first three quarters of 1999. Monetary policy has remained tight throughout the year. Inflation, at 12-14 percent per annum, is below its IMF target rate.

Earlier in the year, Ukraine's foreign exchange reserves fell below \$400 million. IMF and World Bank disbursements resumed in late March and the Central Bank managed to increase reserves levels to over \$1.2 billion. Ukraine fell off-track with its \$2.6 billion IMF EFF program again in September 1999 when, in the run-up to the election, it significantly increased government spending and failed to extend communal service tariff increases beyond the city of Kiev. The fact that Ukraine is off-track with its IMF program makes the country's difficult financing picture for next year worse. However, the Kuchma government has promised, with the election behind it, a reinvigorated push on key market reforms, including deregulation and privatization. The bloated and corrupt bureaucracy hinders economic growth. The government plans to reduce the size of the government as well as its regulatory powers. On privatization, the government has completed the privatization of 8,000 medium-and-small scale enterprises, but privatization and restructuring of large state enterprises has been stalled. The government plans to push forward in 2000 with the sale of 20 of these enterprises. Reform and privatization have also been stalled in the crucial energy and agriculture sectors, due primarily to disagreement between the parliament and the administration on how to proceed. President Kuchma signed a decree in December liberalizing ownership of agricultural land, but implementation is a question mark given Rada opposition. The government also has plans – with the advice and support of the USG and international financial institutions -- to privatize one quarter of the country's electricity distribution companies early in 2000.

Serious problems persist in the investment climate, with widespread corruption, arbitrary government actions, lack of respect for contracts, and lack of enforcement of property laws and court decisions. Although, the constitution guarantees the legal equality of all forms of ownership and the inviolability of private property, the Rada has not passed legislation to implement these constitutional guarantees. The climate for foreign investment remains problematic, with several prominent unresolved problematic investment cases severely discouraging potential international investors. Ukraine was placed on the USTR IPR Priority Watch List in 1999. USTR and Ukraine have established an intellectual property working group and the latter agreed to establish an inter-ministerial commission headed by a deputy Prime Minister to address Ukraine's IPR shortcomings. The U.S. and Ukraine also agreed, during the December meeting of the U.S.-Ukraine Binational Commission's Committee on Trade and Investment (CTI), to establish a working group on GSP and other "Market Economy" issues.

With a few significant exceptions, imports and exports are unrestricted. Ukraine seeks to join the World Trade Organization, but has made little progress in the past two years on trade policy issues and appears unlikely to join in 2000.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The rights to freedom from extra-judicial or political killings and disappearance, freedom of speech, freedom of assembly, and political rights are generally upheld. With the assistance of the OSCE, the Governments of Ukraine and Uzbekistan agreed in 1998 to simplify procedures for more than 65,000 Crimean Tatars to relinquish their Uzbek citizenship and to abolish the fee formerly charged by Uzbekistan. 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.

The government has interfered with freedom of the press, especially in connection with elections. Abuses also continue in the unreformed legal and penal systems, particularly in pre-trial detention facilities where police and prison officials regularly beat detainees and prisoners, and in the military, where violent hazing incidents of conscripts have led to fatalities. Lengthy pretrial detention is endemic. Societal anti-Semitism and violence and discrimination against women and racial minorities persist. Harassment of racial minorities, including by the police, is a problem.

Ukraine is an important source country for girls and women trafficked for sexual exploitation. The government has taken some steps to address this problem. An April 1998 amendment to the criminal code imposes harsh penalties for trafficking in human beings, but the effectiveness of these steps has not yet been established.

The government generally does not interfere with the registration of religions and has allowed the opening of seminaries and Jewish religious schools. There are some restrictions on the activities of non-native religions, however, in general the government has a very good record on interethnic and intercommunal matters, particularly with Ukraine's 500,000-strong Jewish community. Some American and Ukrainian Jewish groups continue to encourage the Ukrainian Government to speak out more forcefully against anti-Semitic manifestations in the nationalist press.

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 adheres to obligations under the Helsinki Final Act and the Charter of Paris and respects international law. Ukraine has no territorial claims on other states. In 1997, it signed a treaty with Romania to assist in resolving border disputes. Ukraine also reached a border agreement with Belarus in 1997, which was signed by both presidents and later ratified by the Ukrainian parliament. The Belarusian parliament has yet to ratify the agreement, but it being observed by both sides. In addition, Ukraine sought the advice and counsel of the OSCE in resolving peacefully outstanding political differences regarding Crimea. The OSCE mission in Ukraine, its mandate on Crimean issues largely fulfilled, was replaced in May of 1999 with an OSCE project office. OSCE observers monitored the two rounds of the presidential election in October and November.

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 separatist disputes in its region. In neighboring Moldova, it has participated in multilateral talks, including hosting a summit meeting in Kiev in the fall of 1999, and by attempting to interdict arms shipments into and out of the disputed region of Transnistria. Its offer of peacekeepers for the CIS force in Abkhazia has not been accepted, but Ukraine joined the Friends of the Secretary General in December 1999. A treaty with Romania, signed in 1997, resolved most questions involving a highly politicized border question and established a procedure to resolve the remaining issues. A battalion of Ukrainian peacekeeping forces serves with the UNPROFOR mission in Bosnia and has suffered many casualties. Ukraine also contributed to the UN peacekeeping mission in Eastern Slavonia and the OSCE Kosovo Verification Mission. In November 1999, the first Ukrainian peacekeepers, with the support of the U.S. and other Allies, deployed into Kosovo where they form part of KFOR, attached to the U.S. sector commander. In May 1997, Ukraine and Poland signed a Declaration of Historical Reconciliation to improve Polish-Ukrainian ties. Also in 1997, the Governments of Russia and Ukraine signed several agreements towards resolving issues concerning Sevastopol and the former Soviet Black Sea Fleet and also signed a Treaty of Friendship and Cooperation, both of which have been ratified by the respective parliaments. In October of 1999, Ukraine was elected as a non-permanent member of the UN Security Council for a two-year term beginning in 2000.

Within its own borders, Ukraine 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. The 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. Ukraine has offered to host an OSCE institution devoted to inter-ethnic relations.

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."

In a landmark decision, Ukraine renounced nuclear weapons in 1993 and continues to be a nuclear weapons-free state. Ukraine is not engaged in the proliferation of nuclear, biological, or chemical weapons, or related technology. Ukraine has acceded to the Nuclear Nonproliferation Treaty (NPT) as a non-nuclear-weapons state. Ukraine is a party to START I, is an active participant in the Treaty's Joint Compliance and Inspection Commission implementing details of the Treaty, and has had all nuclear weapons removed from its territory since 1996. It has been a participant in the Standing Consultative Commission, in discussion and negotiation on Anti-Ballistic Missile (ABM) Treaty succession. Ukraine signed the Comprehensive Nuclear Test Ban Treaty in September 1996.

"The CFE Treaty was ratified by the Ukrainian Rada in July 1992. Ukraine ratified the 1996 CFE flank agreement in 1997, and has participated actively in negotiations to adapt the CFE Treaty, which was signed by Ukraine and representatives of all 30 CFE States at the Istanbul Summit in 1999. Ukraine has provided data on equipment as required by the Treaty. Ukraine has also hosted on-site inspections as provided for in the Treaty, and participates in the CFE Joint Consultative Group, the Treaty's implementation body, which meets in Vienna. Ukrainian compliance with CFE has been generally good. One concern relates to the obligation that Ukraine shares with Russia related to equipment in naval infantry and coastal defense forces (NI/CD). Ukraine is in compliance with overall Treaty limits, but has not fully met the reduction obligation it undertook as a result of the break-up of the Soviet Union. Ukraine maintains that because the total of its equipment of CFE-limited types in conventional forces and in NI/CD units is at or below Ukraine's overall CFE ceilings, the main purpose of the NI/CD obligation has been achieved; and that it is unreasonable to ask Ukraine to expend resources to destroy equipment below its CFE ceiling. This issue has been discussed bilaterally and in the JCG context.

Ukraine has cooperated with efforts to limit proliferation of weapons and technologies of mass destruction. An original signatory to the 1993 Convention on the Prohibition of the Development, Production, Stockpiling, and Use of Chemical Weapons and their Destruction, Ukraine ratified the agreement in October 1998. Ukraine is a party to the 1972 Convention on the Prohibition of the Development, Production, and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction. Ukraine has actively supported U.S. and international efforts to promote nonproliferation in South Asia, including by chairing the multilateral South Asia Task Force during 1999. Ukraine is a member of the Nuclear Suppliers Group and as such has adopted current international export standards. Ukraine has cooperated constructively on individual cases of concern raised by the United States and has stated that it will not provide assistance to unsafeguarded nuclear programs. In March 1998, Ukraine took the positive, politically difficult step to withdraw its participation in a project to provide key components for an Iranian nuclear power plant.

Ukraine acceded to MTCR membership in July 1998. As an MTCR member, Ukraine has committed to abide by the MTCR Guidelines and Annex and to exercise restraint in consideration of all transfers of Annex items.

The U.S. Government works closely with Ukraine to improve its export control system and to stop the proliferation of conventional arms and weapons of mass destruction. While Ukraine has the potential to be a major arms supplier, it is complying with the Wassenaar Arrangement and has been responsive to U.S. inquiries about alleged arms dealings with pariah states.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant trans-border pollution, and promote sustainable use of natural resources."

Significant environmental problems remain in Ukraine, particularly from the after-effects of Chernobyl and widespread industrial pollution. The Ukrainian Government's capacity to manage regulatory programs is insufficient to the task, as many environmental functions have been decentralized. Nevertheless, environmental consciousness is growing, led by an active green movement. The State Nuclear Regulatory Administration of Ukraine was given more independence in mid-1999 when it became a separate legal entity from the Ministry of Environmental Protection and Nuclear Safety.

In 1995, Ukraine signed a memorandum of understanding (MOU) with the G-7 on a comprehensive program to close the Chernobyl nuclear power plant by the year 2000. The United States has worked closely with Ukraine and our G-7 partners to implement the MOU. The program seeks to help Ukraine close Chernobyl safely while undertaking energy sector reforms and power sector investments needed to ensure that Ukraine's power needs will continue to be met. However, financial difficulties, problems with traditional gas suppliers Russia and Turkmenistan, and the slow pace of reform in the energy sector have led to insufficient development of new sources of power, leading to the possibility that Ukraine may seek to

prolong the use of Chernobyl beyond the year 2000. The World Bank and EBRD remain active in financial support of energy market reform.

The Government of Ukraine has taken 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 are slowly 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 international environmental issues. During the December 8, 1999 meeting of the U.S.-Ukraine Binational Commission, President Kuchma and Vice-President Gore signed an agreement establishing a Regional Environmental Center (REC) to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making and provide modest grants to NGOs for projects. The U.S. and the EU are providing the funding for the REC. Ukraine is also working with the United States, European Union and others to address pollution problems in the Black Sea; in September 1999, the Government of Ukraine joined the U.S. Department of Energy in co-hosting a regional Oil Spill Response System Workshop in Odesa.

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 that have committed acts of international terrorism or otherwise support international terrorism. Ukraine is a party to nine of the eleven international counter-terrorism conventions.

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 (MOU) declaring themselves jointly and severally liable for the foreign debts of the Soviet Union (the Ukraine did not sign this MOU). In December 1991, Russia and seven other republics, including the Ukraine, 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 agreed to pay Ukraine's share of the debt of the former Soviet Union (FSU) in return for Ukraine's share of the assets of the FSU. However, Ukraine's Rada has not ratified the agreement and Kiev is still negotiating its details with Moscow. Disputes over ownership of former USSR diplomatic property continue.

Please see Section 498A(a)(9) of the Russia section 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, established in March 1992. The U.S. side of the 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, we do not believe that the Government of Ukraine is engaged in a pattern of gross violation of human rights or international law.

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 has taken numerous actions to facilitate the implementation of arms control agreements signed by the USSR.

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 101 or 102 of Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No.

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 non-market-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?"

Ukraine is not providing assistance to Cuba. Ukraine and Cuba carry out a small level of trade. Some transactions could be construed as barter, but 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."

Chosen president in a 1991 election that most observers considered flawed, President Islam Karimov had his term in office extended until 2000 in a Soviet-style referendum in March 1995. The government has not permitted the existence of an opposition party since 1993.

In 1999, Uzbekistan prepared for elections to both its parliament (December 1999) and presidency (January 2000.) The government, however, continued to deny registration to independent political parties and other groups potentially critical of the government, making meaningful elections impossible. Throughout the year, it seemed clear that the government would not meet its commitment to "free and fair elections with international observers" made in the Joint Statement of the U.S.-Uzbekistan bilateral commission, signed in February 1998. Following the parliamentary elections, OSCE's Office of Democratic Institutions and Human Rights (ODIHR) issued an assessment which stated that these elections "fell short of OSCE commitments enshrined in the Copenhagen Document for democratic elections," and that Uzbekistan's "commitments for a free, fair, equal, transparent and accountable election were breached." Further, ODIHR stated that it could not "justify the deployment of an observation or assessment mission" to the presidential election because "the voters of Uzbekistan will have no genuine choice and the election cannot be considered competitive."

The government also continued to deny registration of independent human rights NGOs; to hold a number of political prisoners; and to fail to account for the disappearance since 1992 of four Muslim religious leaders for which the Government of Uzbekistan is believed to be responsible. Police routinely planted evidence on suspects. Police and the National Security Service abused both dissidents and other citizens. Authorities imprisoned two human rights activists on fabricated charges, severely beat a third and threatened several others. One activist, jailed in 1998, died in prison, apparently due to denial of medical care. Despite a 1997 law providing for prison reforms and assuring basic rights for prisoners, prison conditions remained poor.

Although guaranteed by the constitution and by law, freedom of the press does not exist in Uzbekistan. The constitution prohibits censorship, but newspapers may not be printed without the censor's approval. Self-censorship is practiced by the few independent sources of information in Uzbekistan as a way of avoiding censorship or worse from the government. Almost all newspapers are the organs of government institutions or other government-dependent institutions. The few independent radio and television stations are closely monitored by the government and generally exercise self-censorship. Radio Free Europe/Radio Liberty and the Voice of America are not permitted to broadcast from within the country, despite the government's 1992 contractual agreement to allow this activity. The government allows both organizations to have correspondents in the country. The BBC World Service was required to broadcast on a very low FM frequency, which most radios are unable to receive.

Limited numbers of foreign periodicals can be found in a few hotels and shops in Tashkent, and authorized groups can obtain foreign periodicals through subscription. There are no private publishing houses, and government approval is required for all publications.

A mass media law, which came into effect in January 1998, guarantees freedom of expression, protects the rights of journalists and reiterates the ban on censorship. Nonetheless, several articles are worded in such a way that they could be used to punish government critics. One provision makes journalists responsible for the truth of the information contained in their news stories, potentially subjecting journalists to prosecution if a government official disagrees with a news report. Another permits authorities to close media outlets without a court judgment. Finally, the law prohibits registration of organizations whose purposes include subverting or overthrowing the constitutional order.

A new decree requires that all internet service providers route their connections through a government server to prevent access to information the government considers harmful.

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)."

Despite improvement in Uzbekistan's legislative framework and a continued rhetorical commitment to gradual transition to a market economy and support for foreign investment, progress toward market reform has been limited.

Access to foreign exchange remained restricted and the system of multiple exchange rates remained in place. In fact, the government created a new administratively set rate, supposedly to benefit foreign investors. Market exchange rates increased to almost quadruple the official rate. Sharply restricted access to foreign exchange further hampered foreign investment growth. A requirement to convert half of export earnings into local currency at the official exchange rate placed a severe constraint on exports. As a result of these policies, and despite an ambitious Uzbekistan Government program, privatization remained slow, and investor interest lagged. President Karimov reiterated his promise that current account convertibility would be restored in 2000, and the government began to chip away at some of the formal and informal barriers that inhibit the growth of the fledgling private sector.

Uzbekistan is a member of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD). In September 1998, it submitted its Memorandum of Foreign Trade regime to the World Trade Organization (WTO) Secretariat, its first concrete step toward WTO membership. Major trade deals, including some with U.S. Export-Import Bank financing, were concluded for purchases of U.S. commercial aircraft and agricultural equipment.

An OPIC agreement entered into force in October 1992, and a bilateral trade agreement that includes intellectual property rights provisions entered into force in January 1994. The bilateral investment treaty signed in December 1994 has yet to receive the advice and consent of 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 continues to voice rhetorical support for human rights. The election, religion and media laws all contain statements of principle that, if adhered to in practice, would substantially improve the government's human rights record.

In response to a major terrorist incident in February 1999, the government carried out a crackdown against the Islamic opposition. Thousands of people were arrested, many after police had planted on them narcotics, weapons, ammunition, or Islamic-oriented political literature. Families were often denied access to prisoners. Sometimes, they were denied all contact. Accusations of torture while in custody were not uncommon. Many of the trials of such suspects were closed to the public and to foreign observers. Many clearly were not conducted fairly. Although the number of arrests slowed and some prisoners were released after admitting and then renouncing their connections to political Islam, the crackdown continued at the end of the year.

The government continued to severely limit freedom of speech and the press, and it remained virtually impossible for citizens to criticize the government publicly without repercussions. In response to their public statements on human rights, one human rights activist was severely beaten and two were arrested, tried, convicted and imprisoned on fabricated charges. Other human rights activists were threatened. The government has granted academic institutions more autonomy than they had in the Soviet period. Nonetheless, freedom of expression is still limited.

The vast majority of Uzbekistan's citizens are free to worship as they choose. However, the onerous registration requirements and restrictions on religious expression enacted in the 1998 law on religion remain in force. Most non-Muslim groups have been able to register under the law. However, some remain unregistered and, therefore, subject to harassment

and arrest for such offenses as meeting together to pray. In response to repeated diplomatic approaches, the Government of Uzbekistan agreed to adopt a more flexible attitude as regards unregistered non-Muslim religious groups. This has included expedited registration of such groups, even those not meeting the strict requirements of the religion law; release of leaders of unregistered non-Muslim religious groups arrested in connection with their religious activities; and the offer to chair a conference with the purpose of re-examining the religion law. Regarding the government's relations with unregistered Islamic groups, numerous mosques have been closed and devout Muslims have been harassed, and in some cases arrested, as the government cracks down on what it perceives as political Islam.

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 generally easy to obtain, are valid for a period of two years, and do not require an invitation from abroad.

Local authorities sometimes withhold or delay issuance of 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. Some persons 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.

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, Ukrainians, and others have emigrated from the country, although no exact figures are available. Ethnic Russians have been dismissed from almost all the high government positions they held and from the military. However, by most accounts, emigration occurred not because of any systematic human rights abuses, but rather because of concern that economic and social conditions would decline in Uzbekistan. More recently, there has been a 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."

The Government of Uzbekistan has respected international law and obligations, including those arising from non-proliferation and weapons control treaties it has signed. It joined the OSCE in January 1992. An OSCE regional office opened in Tashkent in September 1995, and the OSCE has held several national or regional seminars in Uzbekistan on human rights and other subjects. Nevertheless, the 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, and its May 1998 religion law, if fully implemented, would also violate OSCE obligations. Uzbekistan also does not recognize or provide freedom of assembly.

At the request of the Kyrgyzstan Government, Uzbekistan's air force bombed positions of insurgents from the Islamic Movement of Uzbekistan, who had intruded into Kyrgyzstan territory from Tajikistan and seized hostages. Uzbekistan's bombing also struck the territory of Tajikistan, although Uzbekistan Government sources stated that this was a case of pilot error.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The Government of Uzbekistan supports regional and international efforts to resolve the conflicts in neighboring Tajikistan and Afghanistan. The government successfully brought the parties to the Afghan conflict to the table under the auspices of the eight-nation contact group, the "Six Plus Two", and continues to work for peace within that framework. Uzbekistan supports the UNSC sanctions against the Taliban.

The Government of Uzbekistan is a guarantor of the 1998 Tajik peace accords and allowed UNHCR to repatriate Tajik refugees from northern Afghanistan through Uzbekistan. It has continued to support the Tajik peace accords while criticizing Tajikistan for harboring forces of the Islamic Movement of Uzbekistan.

**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 Uzbekistan supports international efforts to eliminate nuclear, chemical and biological weapons and has consistently reiterated its acceptance of relevant arms control obligations of the former Soviet Union. Uzbekistan became a party to the Treaty on the Non-Proliferation of Nuclear Weapons as a non-nuclear-weapons state on May 2, 1992. Following up on a conference on a Central Asian Nuclear Weapons Free Zone in September 1997, which it hosted, it participated in a second conference, which produced a draft treaty, circulated for comment to the declared nuclear states, in July 1998. Uzbekistan hosted a February 1999 meeting of a UN experts group that is negotiating this treaty and protocol, and participated in April and October meetings on this as well. Uzbekistan also participated in a May 1999 preparatory meeting for the 2000 Non-Proliferation Treaty Review Conference.

We do not believe that the Government of Uzbekistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Uzbekistan has signed and ratified the Comprehensive Test Ban Treaty (CTBT); 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). It has filed a declaration with the Organization for Prohibition of Chemical Weapons. To our knowledge, the Government of Uzbekistan has not engaged in any significant level of conventional arms transfers. It has taken steps to develop its own export control system, and it has positively engaged with U.S. cooperative programs to counter proliferation and develop export controls. Under the terms of the Cooperative Threat Reduction Agreement of May 1999, the Uzbekistan Government has worked alongside U.S. Defense Department experts to survey a former Soviet-era chemical weapons-associated facility in Nukus, and to develop and coordinate a plan to dismantle and clean up the site.

The Government of Uzbekistan has armed forces of some 90,000 troops. The government does not allow forces from any third party, such as the CIS, to guard its borders.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

In line with the Nukus Declaration of September 1995, Uzbekistan and its neighbors continue to cooperate on problems of the Aral Sea watershed, most notably with a March 1998 multi-year agreement on water and power-sharing. This agreement, and the Interstate Council by which it was negotiated, was expanded in March 1998 to include Tajikistan. The Government of Uzbekistan has also hosted four annual OSCE environmental seminars, most recently in September 1998. Recently, Uzbekistan joined the other Central Asian states in a decision to locate the headquarters of a Regional Environmental Center (REC) in Almaty, Kazakhstan. The mission of this independent, non-profit, and non-political organization will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

Uzbekistan has suffered severe environmental problems, including lingering agrochemical pollution, as a result of the cotton monoculture imposed during the Soviet era. The government has supported a shift of some lands from cotton to grain production that could mitigate the problem. Serious public health issues continue to present a challenge to Uzbekistan and its neighbors. The government, bilaterally and through regional organizations, seeks international assistance to deal with these issues. The Uzbekistan Government's Fund for Ecology and Health of Uzbekistan has worked to increase the public consciousness and understanding of the environmental problems. Several government committees deal with specific environmental and ecological issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Uzbekistan does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Uzbekistan is a party to seven of the twelve international counter-terrorism conventions.

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 November 1992, Uzbekistan signed a "zero option" agreement with Russia under which Russia will pay Uzbekistan's share of the debt of the former Soviet Union in return for Uzbekistan's share of the FSU's external assets.

Please see Section 498A(a)(9) of the Russia section 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 that was established in March 1992. The Government of Uzbekistan has been cooperative with all related interviews conducted in Uzbekistan and in February 1996 hosted a successful visit by the Commission.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing 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 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 is concerned by the human rights situation in Uzbekistan. Lack of the freedoms of association, assembly, and press make real democracy impossible, while police planting of evidence, unfair and closed trials, and torture make a mockery of justice in Uzbekistan. The law on religion continues to restrict freedom of conscience. The U.S. Government will continue to monitor the Uzbekistan Government's human rights performance.

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 such determinations were made with respect to Uzbekistan in 1999.

Section 498A(b)(4): Is the Government of Uzbekistan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control 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 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 non-market-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 non-market-based trade between the Governments of Uzbekistan and Cuba.

V. EVALUATION OF THE USE OF “NOTWITHSTANDING” AUTHORITY

In FY 1999, the U.S. Agency for International Development (USAID) and the U.S. Department of State continued to use “notwithstanding” authority to respond to unanticipated needs and to provide assistance to the NIS. While USAID and the Department of State have been careful to limit their use of “notwithstanding” authority, this authority has given them the flexibility to carry out their respective missions in the unique environment of the NIS.

Below are evaluations of the four specific uses of the “notwithstanding” authority during FY 1999:

<u>AGENCY</u>	<u>DATE</u>	<u>ACTIVITY</u>	<u>AMOUNT</u>
USAID	Throughout FY 1999	Personal Services Contracts	Various

Rationale: USAID exercised “notwithstanding” authority throughout FY 1999 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 Eurasia to employ Washington-based PSCs, especially technical specialists, to ensure adequate program management.

<u>AGENCY</u>	<u>DATE</u>	<u>ACTIVITY</u>	<u>AMOUNT</u>
U.S. Department of State	Throughout FY 1999	Cooperative Grants	Various

Rationale: Throughout FY 1999, the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C) exercised “notwithstanding authority” to award noncompetitive follow-on grants to the following U.S. private volunteer organizations (PVOs) to provide continued emergency and transitional assistance to the NIS countries: Counterpart International, CitiHope, United Methodist Committee on Relief (UMCOR), Project Hope, Heart-to-Heart, International Relief and Development, and International Medical Corps. Also in FY 1999, S/NIS/C initiated two new grants, one to the World Council of the Hellenes for humanitarian clinical work in Armenia, Georgia and Ukraine, and another to the PVO Eaton-Hap to support their humanitarian efforts in Sumgait, Azerbaijan. S/NIS/C used “notwithstanding authority” to meet emergency needs on a real-time basis, in cases where there was not enough time to conduct a lengthy competitive process. For example, S/NIS/C provided badly needed emergency commodities to displaced populations in Azerbaijan, Georgia, the North Caucasus, the Russian Far East, and Tajikistan, and to flood-ravaged regions in Zakarpatia (Ukraine), Tajikistan, and Kyrgyzstan.

<u>AGENCY</u>	<u>DATE</u>	<u>ACTIVITY</u>	<u>AMOUNT</u>
U.S. Department of State	June 1999	Counterterrorism Conference	under \$10,000

Rationale: The Office of the Coordinator for Counterterrorism (S/CT) invoked “notwithstanding authority” under Section 571 of the Foreign Assistance Act, which permits Anti-Terrorism Assistance (ATA) notwithstanding any other provision of law that restricts assistance to foreign countries, to fund the participation of Azerbaijani Government officials in a counterterrorism conference. The U.S. Government’s efforts to promote regional cooperation on counterterrorism issues would not have been as effective without Azerbaijani participation.

<u>AGENCY</u>	<u>DATE</u>	<u>ACTIVITY</u>	<u>AMOUNT</u>
U.S. Department of State	September 1999	Health Programs	\$1,615,000

Rationale: The Coordinator of U.S. Assistance to the NIS relied on “notwithstanding authority” to authorize the obligation of funds by USAID for health-related projects in Kazakhstan during a period when he had instituted a discretionary suspension of new obligations of assistance to the Government of Kazakhstan because of concerns regarding that government’s transfers of weapons to a state that has been designated a state sponsor of terrorism. The Coordinator approved five inter-related projects for humanitarian reasons, with particular concern for the urgency of the health problems that these projects were designed to address.

VI. ASSESSMENTS REQUIRED BY THE SILK ROAD STRATEGY ACT OF 1999

The Silk Road Strategy Act of 1999, which amends the Foreign Assistance Act of 1960 and was enacted as part of the FY 2000 Foreign Operations, Export Financing, and Related Programs Appropriations Act, requires that this annual report:

- identify progress made in fulfilling the policy objectives laid out in the Silk Road Strategy Act;
- evaluate the degree to which U.S. Government-funded assistance to Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan has helped accomplish these objectives;
- describe progress being made in resolving trade disputes and negotiating bilateral investment treaties with these countries; and
- recommend any additional initiatives that should be undertaken by the United States to implement the policy and purposes contained in the Silk Road Strategy Act.

The *FY 2000 Annual Report* will address all four of the above items, reporting on progress subsequent to the enactment of the Silk Road Strategy Act in late November 1999. Provided below is a brief treatment of the third item, based on information already on hand; a fuller description will appear in the *FY 2000 Annual Report*.

Armenia: The U.S.-Armenia Bilateral Investment Treaty entered into force on March 29, 1996. The U.S. Government is not aware of any expropriation claims or investment disputes involving U.S. citizens in Armenia. (See also Section 498A(a)(2) assessment for Armenia in Part IV of this report.)

Azerbaijan: The U.S. Government and the Government of Azerbaijan signed a Bilateral Investment Treaty on August 1, 1997. Entry into force is pending U.S. ratification and exchange of instruments of ratification. The U.S. Government is aware of two outstanding investment-related disputes between U.S. citizens and the Government of Azerbaijan. Despite assistance from the U.S. Embassy, the disputes have so far not been resolved to the satisfaction of the U.S. investors. (See also Section 498A(a)(2) assessment for Azerbaijan in Part IV of this report.)

Georgia: The U.S.-Georgia Bilateral Investment Treaty entered into force on August 17, 1997. The U.S. Government is aware of one investment-related dispute involving a U.S. citizen and the Government of Georgia. The U.S. Embassy is assisting the claimant, who is cooperating closely with the Government of Georgia in an attempt to resolve the case. (See also Section 498A(a)(2) assessment for Georgia in Part IV of this report.)

Kazakhstan: The U.S.-Kazakhstan Bilateral Investment Treaty entered into force on January 12, 1994. The U.S. Government is aware of a number of outstanding investment-related disputes involving U.S. investors in Kazakhstan, and has been very active in supporting these investors' attempts to resolve the disputes, several of which are currently before U.S. courts or have been submitted to international arbitration. In one such case, a Canadian company with a U.S. subsidiary concluded an agreement with the Government of Kazakhstan to develop Kazakhstan's uranium industry. The company's investment was based on plans to export uranium from Kazakhstan to world markets, but the Government of Kazakhstan refused to issue the company an export license. The company sought damages in a U.S. court proceeding, which is ongoing. The company has indicated its willingness to settle out of court. Since August 1997, the U.S. Embassy has approached the Government of Kazakhstan on several occasions to urge that the Government work with the company to resolve the issue. The case was raised most recently during the December 1999 meetings of the U.S.-Kazakhstan Joint Commission. (See also Section 498A(a)(2) assessment for Kazakhstan in Part IV of this report.)

Kyrgyzstan: The U.S.-Kyrgyzstan Bilateral Investment Treaty entered into force on January 12, 1994. The U.S. Government is aware of one investment-related dispute involving U.S. citizens, which was settled in 1999. (See also Section 498A(a)(2) assessment for Kyrgyzstan in Part IV of this report.)

Tajikistan: Negotiations on a bilateral investment treaty between the U.S. Government and the Government of Tajikistan have been inactive since April 1993. Continuing civil strife in Tajikistan has ruled out further action to date. The U.S. Government is currently not aware of any outstanding expropriation claims or investment disputes involving U.S. citizens against the Government of Tajikistan.

Turkmenistan: Negotiations on a bilateral investment treaty between the U.S. Government and the Government of Turkmenistan have been inactive since March 1998, pending action by the Government of Turkmenistan. The U.S. Government is currently not aware of any outstanding expropriation claims or investment disputes involving U.S. citizens against the Government of Turkmenistan.

Uzbekistan: The U.S. Government and the Government of Uzbekistan signed a Bilateral Investment Treaty on December 16, 1994. Entry into force is pending U.S. ratification and exchange of instruments of ratification. The U.S. Government is aware of two outstanding investment-related disputes involving U.S. citizens. The U.S. investors have been unsuccessful so far in their attempts to resolve these disputes through local courts.

FREQUENTLY USED ABBREVIATIONS

A&E's	audits and examinations
ABA/CEELI	The American Bar Association's Central and East European Law Initiative
BW	biological weapons
CAAEF	Central Asian - American Enterprise Fund
CTR	Cooperative Threat Reduction Program
CW	chemical weapons
DoD	U.S. Department of Defense
DOE	U.S. Department of Energy
E&E	USAID's Bureau for Europe and Eurasia
EBRD	European Bank for Reconstruction and Development
EPA	U.S. Environmental Protection Agency
ETRI	Expanded Threat Reduction Initiative
EU	European Union
Eximbank	U.S. Export-Import Bank
FMF	Foreign Military Financing
FSA	FREEDOM Support Act*
FY	fiscal year
GDP	gross domestic product
GNP	gross national product
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development
ICBM	intercontinental ballistic missile
IDP	internally displaced person
IFIs	international financial institutions
IFC	International Finance Corporation
IMET	International Military Education and Training
IMF	International Monetary Fund
IPR	intellectual property rights
m	million
MoD	Ministry of Defense
MOU	memorandum of understanding
MPC&A	material protection, control and accounting
MT	metric ton
MVD	Ministry of Internal Affairs
NATO	North Atlantic Treaty Organization
NGO	non-governmental organization
NIS	New Independent States of the former Soviet Union
NPP	nuclear power plant
NPT	Nuclear Non-Proliferation Treaty
OPIC	Overseas Private Investment Corporation
OSCE	Organization for Security and Cooperation in Europe
PCV	Peace Corps volunteer
P.L.	Public Law
PSA	production-sharing agreement
PVO	private voluntary organization
RI	Regional Initiative
RFE	Russian Far East
SLBM	submarine-launched ballistic missile
SMEs	small to medium-sized enterprises
SNAE	strategic nuclear arms elimination
S/NIS/C	Office of the Coordinator of U.S. Assistance to the NIS
SOAE	strategic offensive arms elimination
SSBN	ballistic missile submarine
START	Strategic Arms Reduction Treaty
TACIS	The European Union's technical assistance program for the NIS
TDA	U.S. Trade and Development Agency
TUSRIF	The U.S.-Russia Investment Fund
UNHCR	United Nations High Commissioner for Refugees
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USIA (USIS)	U.S. Information Agency (known abroad as the U.S. Information Service)
WFP	United Nations World Food Program
WMD	weapons of mass destruction
WNISEF	Western NIS Enterprise Fund
WTO	World Trade Organization

*Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act