USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

U.S.G. ASSISTANCE PROGRAM TO CENTRAL EUROPE AND THE BALTICS

June 1996

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Divider Title: **PROFILES**

USAID Country Profile: ROMANIA

March 1996

Capital: Bucharest; **Languages**: Romanian, Hungarian
Size: Smaller than Oregon -- 237,500 sq. km (91,675 sq. miles)
Population: 23M (1994); 89% Romanian, 9% Hungarian
Population Growth Rate: 0.01% (1995)
Life Expectancy: ♂-69 yrs., ♀-75 yrs. (1994)
Infant Mortality Rate: 20/1,000 live births (1994)
Literacy: 98% literacy rate; **Unemployed**: 9.5% (1995)
Per Capita Income: $1,352 (1995); **Currency**: LEI
GDP: $30.7 billion (1995); **GDP Growth**: 4.5% (1995)
External Debt: $4.5 billion (1995)
Foreign Direct Investment: $1.55 billion (1995)

Political Issues: The early years of transition saw a flowering of political parties and free speech, but the most popular and powerful force remains the Party of Social Democracy (PDSR). In recently expelling the extreme nationalist PUNR party from the governing coalition, the PDSR seems once again to be seeking to develop a more moderate and centrist basis for governance. However, the opposition has not moved to bring down the government which is expected to continue its prime role in Government until elections in September 1996.

Economic Issues: In 1995, Romania made substantial progress toward economic reform and recovery. The emerging private sector in Romania, generated close to 40% of GDP in 1995. One of Romania's greatest challenges is the current account balance. The long-term solution to this problem is greater foreign investment. Without an increase in external financing, restructuring will be delayed and the economy will be unable to sustain its present growth. Romania's ability to sustain economic reforms and promote a stable democracy face a number of other key constraints, including: restrictions against foreign ownership of land; bureaucratic red-tape and corruption; limited availability of investment finance; slow pace of privatization; lack of respect for contractual obligations; lack of a sound electoral registration system; low voter turnout; and low confidence in the judiciary.

Overview of SEED Assistance in Romania

Strategic objectives for assistance include:

- Economic Restructuring: Developing a capital market, and promoting private business development and sustainable use of natural resources.
- Democratic Transition: Enhancing the role of individuals and citizens' groups in guiding policy, encouraging government accountability through civic education, and building administrative capacity of local government.
- Social Stabilization: Pursuing key social service restructuring opportunities, moving beyond earlier service delivery programs in family planning and help for institutionalized children to address broader constraints in the health and social service delivery systems.

With 23 million people, Romania is the second most populous of the formerly centrally planned economies in Central and Eastern Europe. The U.S. assistance program to Romania began in 1990 with the direct provision of humanitarian and social service assistance. Assistance also sought to strengthen the tenuous democracy which emerged from Romania's revolution. While since 1993, the USG program has made a major commitment to economic restructuring assistance, it also emphasizes other economic and political transition assistance, including support for direct business development programs; fostering additional development of the country's developing democratic system; increased decentralization of government towards the municipal/county levels; fostering development of Romanian non-governmental organizations (NGOs); and promotion of sustainable use of natural resources and reduction of environmental risks to health. The program also remains committed to pursuing key social service restructuring opportunities, moving beyond earlier service delivery programs in family planning and help for institutionalized children. The use of U.S. resources to leverage financial contributions from other donors has been an explicit element of the assistance program in Romania. These efforts have principally involved collaboration with the international financial institutions.

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USAID Country Profile: POLAND

March 1996

Capital: Warsaw; **Languages:** Polish
Size: About the size of New Mexico -- 312,680 sq. km (120,785 sq. miles)
Population: 38.5M (1994); 97% Polish
Population Growth Rate: 0.35% (1994 est.)
Life Expectancy: ♂-66 yrs., ♀-75 yrs.
Infant Mortality Rate: 13.44/1,000 live births (1994 est.)
Literacy: 98% literacy rate; **Unemployed:** 17.2% (1994)
GDP Per Capita: $2,270 (1993); **Currency:** Zloty
GDP: $95 billion (1994); **GDP Growth:** 6% (1995 est.)
External Debt: $43.9 billion (1995 est.)
Foreign Direct Investment Per Capita: $177 (1990-1995)

Political Issues: Five years after the fall of communism, Poland has firmly established a parliamentary democracy based on a multiparty political system and free and fair elections. In October 1993, the Democratic Left Alliance (SLD), a successor to the former Communist party, and the Polish Peasant party (PSL) formed a government coalition with a parliamentary majority. In November 1995, Alexander Kwasniewski (SLD) won the presidential election. President Kwasniewski plans to continue government support to privatization and free market principles. The government of Poland hopes to join NATO soon despite Russia's displeasure.

Economic Issues: Poland underwent a profound transformation as the government introduced a free market system to replace the centrally planned economy. The GDP dropped by about 18 percent in 1990 and 1991 but then regained nearly all that ground over four straight years of strong growth. Growth reached nearly 6 percent in 1995 while inflation dropped to near 20 percent. Unemployment also declined to about 14 percent at the end of 1995.

Overview of SEED Assistance in Poland

Strategic objectives for assistance include:

- Economic Restructuring: Promoting and accelerating the pace of privatization, removing barriers to improve the business climate, implementing a legal and regulatory framework to promote a free market and reduce impediment to investments, and advising the banking industry on bank supervision, restructuring and privatizing.
- Building Democracy: Supporting democratic developments and market economy through reforming public institutions, strengthening non-governmental organizations and expediting decentralization.
- Social Sector Restructuring: Facilitating health services delivery at the local government level, water pollution abatement, reform of employment services, and upgrading worker skills.

Poland is the largest SEED recipient country with nearly $800 million obligated as of September 1995 and a budget of $46.0 million in FY 1996. USAID-administered SEED assistance focusses on overcoming what remains of major impediments to sustainable, long-term economic growth and resilient democracy, building on lessons learned and a strategy that employs the mutually reinforcing objectives of private, public, financial and democratic sector development. Key aspects of the Polish transition to a viable market economy and democratic civil society such as economic restructuring, private and financial sector development, governmental decentralization, housing sector development, environment and energy, agribusiness, health care and human resources have received extensive USAID assistance. The updated strategy for promoting private sector development throughout Poland focusses upon small and medium scale enterprises. In the financial sector, the emphasis is on the banking industry and other financial institutions such as credit unions and rural cooperative banks. USAID aims to increase its activities in the regions of Poland outside of Warsaw. Supporting private sector development through assisting entrepreneurs, helping to accelerate the pace of privatization and restructuring, and removing barriers to improving the business climate continues to be of highest priority in the U.S. assistance strategy for Poland.

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USAID Country Profile: CZECH REPUBLIC March 1996

Capital: Prague; **Languages**: Czech, German, Slovak
Size: 30,450 sq. miles (slightly smaller than South Carolina)
Population: 10.3 million (1993 est.); **Pop. Growth Rate**: 1%
Life Expectancy: ♂-69.5 yrs; ♀-76 yrs (1994 est.)
Infant Mortality Rate: 7.9 per 1,000 live births (1994 est.)
Literacy: 99% **Unemployed**: 3.2% (1995 est.)
Per Capita Income: $3,500 (1994); **Currency**: Koruna
Purchasing Power Parity: $8,000 per capita (1993)
External Debt: $8.7 (1994)
GDP: $38.3 billion (1994); **GDP growth**: 4.8% (1995)
Foreign Direct Investment: est $350 per capita (1990-95 cumulative)

Political Issues: Democratic institutions are in place, the economic reform process is well under way, and the Czech Republic is probably the leading Central European candidate for full membership in the economic and security institutions of the West, as illustrated by its recent accession to the OECD. The Czech Republic is a fully functioning parliamentary democracy whose citizens enjoy the rights of free speech and assembly and vigorous free press. A second cycle of national elections will take place this spring.

Economic Issues: The Czech Republic is viewed as a model of successful economic transformation,and there is general optimism about the economy's medium term outlook. The economy is characterized by low unemployment, relatively low inflation, (9%), and initial success in Western markets. Economic and fiscal policy has resulted in the liberalization of 95% of all price controls, budgetary success, a strong and convertible currency, and limited foreign debt. U.S. investors have committed over $1.2 billion in the Czech Republic since 1992, and the U.S. now ranks fourth in total investment after telecommunications privatization in 1995. Recent legislation on procurement, conflict of interest, non-profit organizations and bankruptcy amendments continue to create an viable environment of continued growth. Nevertheless, although 81% of the economy is now technically in private hands, large public stakes in the banking system, which in turn holds large shares of "privatized" industrial firms believe this statistic. Furthermore, questions on bad inter-firm debt a burgeoning trade deficit and lack of restructuring plague the competitiveness of Czech manufacturers, and issues in the health system regarding privatization and financing have not been resolved.

Overview of SEED Assistance to Czech Republic

Strategic assistance objectives include:

- **Economic Restructuring: Supporting privatization and enterprise restructuring securities markets, a workable banking system, increasing energy efficiency while reducing pollution, and facilitating professional training activities over a broad range of key skills for a healthy market economy.**
- **Building Democracy: Enhancing municipal and local governments' responsiveness to public problems, and supporting development of citizens' groups as viable platforms for public participation;**
- **Social Sector Restructuring: Reducing health risks from environmental pollution and supporting efficient and effective free-market health care.**

SEED obligations for the Czech Republic's program during FYs 1995 and 1996 will total over $20 million. On the assumption that economic and institutional reforms continue at their present pace, the SEED-funded assistance program in the Czech Republic will be successfully completed by September 1997. In these remaining years, greater emphasis is being placed on local municipal development and civic participation. Economic restructuring focuses on: improving the efficiency and viability of the financial sector, including banking, capital markets, municipal finance and development; enterprise restructuring; energy sector regulation; and management skills. An advisory team continues to work on enterprise restructuring for strategically important industries yet to be privatized. Institution building efforts will strengthen municipal and local governments' capacity to respond to citizens' needs and manage public resources, while supporting a civic society in which citizen groups become fully engaged in the democratic process. The municipal finance program and related technical assistance, public administration project, environmental activities, management training, and the Peace Corps program will continue through 1997. FY 1996, however, is the final year of SEED-funded appropriations, in accordance with the phase-out strategy approved by the U.S. and Czech Governments

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USAID Country Profile: SLOVAKIA

March 1996

Capital: Bratislava; Language: Slovak
About twice the size of New Hampshire -- 48,845 sq km (17,584 sq miles)
Population: 5.4M (July 1994 est.)
Population Growth Rate: 0.53% (1994 est.)
Life Expectancy: μ- 68.66 yrs., τ- 77.2 yrs. (1994 est.)
Infant Mortality Rate: 10.4 deaths/1,000live births (1994 est.)
Literacy: 97%; Unemployed: 14.4% (1994 est.)
Per Capita Income: $5,800 (1993 est.); Currency: Slovak Koruna
GDP: $31 billion (1993 est.); GDP Growth: 3.5% (1994 est.)
External Debt: $3.6 billion (mid-1994)
Foreign Direct Investment Per Capita: $44 (1990-1993)

Political Issues: Although the Slovak constitution provides basic freedoms, key sectors still need strengthening. While mayors are elected locally, key decisions are made at the center. Mayors' inability to deliver essential services does not encourage confidence in democratic governance. Indigenous NGOs are under-financed and lack managerial experience. Electronic media is tightly controlled by councils responsible to Parliament, and therefore by the ruling party.

Economic Issues: After several years of decline, Slovakia showed signs of an economic upturn in 1994. The GDP fell about 25% in real terms from 1990-1993, but the recession ended in 1994 with a 3-4% rate of GDP growth. The government continues to follow prudent monetary and fiscal policies, which have resulted in a falling rate of inflation and a relatively low budget deficit. The economic picture is not without its sobering side, however. Slovakia carries a particularly heavy adjustment burden, because much of its industrial base was comprised of armament-related enterprises. Many of these and other large state-owned enterprises are heavily indebted to the banking system and to each other. This problem needs to be solved to free more capital for investment in viable new or restructured businesses. After initial successes, the privatization effort that began under the Czech and Slovak Federal Republic slowed, and became hostage to differing political agendas. Unemployment, while dipping below 13% for the first time in late 1995, is nearly twice that rate in some regions of the country. Creating growth in the high unemployment regions will also be an important task.

Overview of SEED Assistance in Slovakia

Strategic objectives for assistance include:

- **Economic Restructuring: Accelerating Slovakia's transition to a market economy by helping to restructure and privatize enterprises and create a strong financial sector and economic institutions while encouraging the growth of small and medium-sized enterprises.**
- **Building Democracy: Strengthening nongovernmental organizations, facilitating education reform, establishing an independent media, preparing locally-elected officials to manage city assets, and providing technical assistance for the creation of an independent judiciary.**
- **Social Sector Restructuring:** *Supporting the conversion of public sector housing to the private sector, and assisting in health care and educational reform.*

USAID has budgeted $16 million for Slovakia in FY 1996. The assistance priorities are: (1) to support privatization of state-owned enterprises, enterprise restructuring, bank recapitalization, accelerated development of capital markets, growth of small and medium size businesses, and a sound business and investment climate; (2) to strengthen non-governmental organizations, decentralize power, deepen democratic attitudes and values, and encourage a truly independent and multi-voiced media. USAID also helps locally-elected officials to better manage decentralized finances and administer city-owned properties and assets more effectively, supports reforms to introduce a "spirit of democracy" in primary and secondary classrooms, and assists in the development of an independent judiciary; and (3) to improve the social sector by facilitating health care finance reform, rationalization of housing allowances and pilot projects to help Slovaks working in state enterprises make the transition to a free market economy.

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USAID Country Profile: HUNGARY June 1996

Capital: Budapest; Language: Hungarian; German, Russian, English
Size: About size of Indiana -- 57,472 sq. km (22,184 sq. miles)
Population: 10.3 million (1993 est.)
Population Growth Rate: minus .03%
Life Expectancy: μ-67.4 yrs (declining); τ-75.6 yrs (1994 est.)
Infant Mortality Rate: 12.5 per 1,000 live births (1994 est.)
Literacy: 99%; Unemployment: 18% (est.); Currency: Forint
Per Capita Income: $3,965 (IMF est. Feb. 1995); $1.00 = Ft.141
GDP: $41 billion (1994); GDP growth: 2.6% (est.)
External Debt: $27.7 billion (gross 1994, rising)
Foreign Direct Investment: $13 billion (highest among CEE countries)

Political Issues: The Hungary of 1996 is recognized as a fully functioning parliamentary democracy where fundamental liberties and individual freedoms are the norm. The 1994 parliamentary elections restored to power the Socialist ('reform Communist') party, which governs in coalition with the liberal-centrist Alliance of Free Democrats. The present Government has honored its election commitment to maintain and consolidate economic and political reform. Hungary is also working toward full integration into the economic and security institutions of the West. In 1995 it became a full member of the OECD, and continues its efforts to attain entry into NATO and the European Union. U.S.-Hungary relations are excellent. Hungary actively participates in U.S.-led initiatives, including the Conference on Security and Cooperation in Europe (CSCE), NATO's Partnership for Peace program, and United Nations sanctions against Serbia, at considerable cost to its fragile economy. Hungary is currently providing logistical support for U.S. and other NATO peacekeeping troops in Bosnia.

Economic Issues: Hungary has succeeded in making most of the very difficult changes essential to establishing a dynamic and prosperous free market economy, with the private sector now accounting for almost 70 percent of GDP. Hungary's approach of allowing most privatization to take place as sales to local or foreign investors has netted the economy over $13 billion in private foreign investment, including $4 billion from U.S. investors. This has brought new life to privatized firms by introducing modern production know-how and dynamic management. Economic restructuring has not been without its costs to the avenge Hungarian. The incidence of poverty, though expected to be short-term, has risen from 4.3% in 1989 to 34.6% in 1993. Inflation remains high (approaching 30%), as is unemployment. Dependent mothers, children and the elderly have fared the worst.

Overview of SEED Assistance in Hungary

As the SEED-funded USAID program has matured, Strategic objectives have been narrowed to the following five:

- Increased soundness of fiscal policies and fiscal management;
- More competitive and market-responsive private financial sector;
- Improved performance of private small and medium enterprises;
- Economically sustainable, restructured energy sector; and
- Better informed citizens' increasing their participation in decision-making at the local level.

Cumulative USAID obligations to date total over $215 million, with $17 million programmed for FY 1996. Historically, economic restructuring programs account for approximately 75% of USAID program funding, mainly as technical assistance to help design and implement policies regarding budget and fiscal reform, affordable health care, pensions, housing, local government-strengthening, and promotion of NGOs. Earlier objectives on democratic institution-building have been achieved successfully, as evidenced by extensive legislation assisted by U.S. expertise. SEED support has also focussed on issues relating to unemployment, housing, education and health. Examples include innovative promotion of means-tested housing subsidies, U.S.-Hungarian partnership programs to reduce child mortality from cancer by 80%, introduction of standardized protocols and diagnostic-related groups to maintain quality of health care while reducing costs, and an innovative local government-NGO-private sector-Labor Ministry project on counselling and training employees affected by industrial modernization and "right-sizing."

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March 1996

USAID Country Profile: ESTONIA

Capital: Tallinn; Languages: Estonian, Russian
Size: About the size of New Hampshire and Vermont combined -- 45,100 sq. km (17,409 sq. miles)
Population: 1.6M (1994 est.)
Population Growth Rate: 0.52% (1994 est.)
Life Expectancy: μ- 64.98 yrs., τ- 77.19 yrs. (1994 est.)
Infant Mortality Rate: 19.1 deaths/1,000live births (1994 est.)
Literacy: 99% literacy rate; Unemployed: 3.5% (1993)
Per Capita Income: $5,480 (1993 est.); Currency: 1 Estonian kroon (EEK)
GDP: $8.8 billion (1993 est.); GDP Growth: 5% (1995 est.)
External Debt: $650 million (1993)
Foreign Direct Investment Per Capita: $113 (1990-1993)

Political Issues: With the adoption of a national constitution and successful national and local elections, participatory democracy is well established in Estonia. An independent media and vibrant political parties help to maintain representational government at all levels. Decentralization has largely been accomplished by devolving authority to local municipalities and with the enactment of the national and local budget and tax laws. However, Russia's unilateral border demarcation and the continued presence of at least several hundred of its officers demobilized in Estonia after the July 1994 troop withdrawal agreement are irritants which both Governments are trying to resolve. In addition, the assimilation of Russian minorities (approximately 31%) into Estonian society and the status of their rights has been a source of tension.

Economic Issues: An open market philosophy, liberal free trade and sound monetary policies coupled with broad-based privatization are creating a solid, dynamic Western-style economy in Estonia. Estonia has created one of the most stable currencies in Central and Eastern Europe and a dynamic financial sector. A strong private sector response to economic reform measures led to the privatization of 3,000 state-owned businesses. In addition to some 58,000 new business start-ups since independence, over 7,000 foreign investors, are active in the economy. Estonia has shifted its trade significantly from Russia, entering into formal trade agreements with most Western governments and the Nordic States. However, Estonia needs to further specialize its exports to gain better access to Western markets. Also, the problem of access to venture capital is an obstacle to the development of new entrepreneurship.

Overview of SEED Assistance in Estonia

Strategic objectives for assistance include:

- Economic Restructuring: Help Estonia's momentum in completing its privatization efforts, promote small and medium business development, and encourage trade linkages with the West.
- Building Democracy: Establish pluralistic, open governmental structures, and improve operational, fiscal, and management capabilities at the local and national level; and, encourage NGO development.
- Social Sector Restructuring: Help the health sector become a more efficient provider of modern medical techniques, and promote environmental initiatives that reduce health risks and curb environmental degradation.

Due to Estonia's successful reform efforts and the considerable U.S. and European donor assistance (over 900 projects) available to meet the requirements of sustainable development, SEED assistance will phase out of Estonia in September 1996. Until the phase-out is complete, the SEED program will focus on: (1) privatizing state-owned enterprises; (2) promoting U.S. and other foreign capital investments and help expand trade with the West; (3) reforming the health sector and enhance hospitals' modern medical techniques; (4) promoting environmental initiatives to reduce health risks and stem environmental degradation; and (5) strengthening municipal governance and improve managerial, operational, and fiscal systems of local and national governments.

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Divider Title: **ASSISTANCE SUMMARIES**

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Divider Title: **ROMANIA**

SEED ASSISTANCE SUMMARY

Program Overview

Immediately after the revolution, the Romanian economy experienced a 35 percent drop in real output levels, a 25% compression in real wages, and triple digit inflation. The U.S. assistance program to Romania began in 1990, by addressing direct provision of social services and humanitarian aid. It also sought to strengthen the very tenuous democracy which emerged from Romania's revolution. As conditions permitted, an increasing share of SEED resources were devoted to fundamental economic restructuring and democratic development programs, which now account for the largest shares of USAID commitments.

During 1995 Romania made substantial progress toward economic reform and recovery. The strong GDP performance (4% annual rate of growth in 1995, according to EBRD estimates) was Romania's best since 1984. Foreign investment rose steadily during the course of the year, with cumulative, registered foreign investment reaching $1.55 billion in October 1995 (up from $1.25 billion on January 1). Among the U.S. companies making new commitments were Pizza Hut, AMOCO, Reynold's Tobacco, McDonald's, Proctor and Gamble, Citibank, and IBM. Despite steady improvement in the overall economy, however, Romania's per capita GDP ($1,352 in 1995) remains among the lowest in Central Europe.

Economic reform has entailed creating new laws in virtually every sphere: finance, commerce, privatization, intellectual property rights, banking, labor, foreign investment, environment and taxation. Among the most recent developments are the passage of the bankruptcy act, the mass privatization (MPP) law and several executive ordinances to assist state-owned enterprises in downsizing and restructuring. Several bills related to a modern copyright law, a petroleum law, and a modern telecommunications law are now before the Parliament. The USG has played a significant role in formulating this legal framework.

U.S. assistance continues to pursue a "three pronged" approach -- **economic restructuring, democratic development, and social sector restructuring/quality of life**. Although the USG program has made a major commitment to economic restructuring assistance, it also emphasizes other economic and political transition efforts, such as supporting direct business development programs; fostering additional development of the country's developing democratic system; increasing decentralization of government towards the municipal/county levels; facilitating development of Romanian non-governmental organizations (NGOs); and promoting sustainable use of natural resources and reduction of environmental risks to health. The program also pursues key social service restructuring opportunities, moving beyond earlier service delivery programs in family planning and help for institutionalized children.

The use of SEED resources to leverage financial contributions from other donors has also been an explicit element of the assistance program in Romania. These efforts have principally involved collaboration with the international financial institutions (IFIs).

Since FY 90, a little over $148 million in SEED, Economic Support, and Development Assistance resources have been obligated, of which over $42 million were made available during FY 95.

Program Impact

Economic Growth:

The emerging private sector in Romania, which generates 40% of GDP, has been the single most dynamic element of Romania's economic restructuring. It employed an estimated 52% of Romania's occupied labor force, including 3 million farmers, 1.9 million owners and employees of private firms, and 0.3 million self-employed individuals. With SEED support, business development contractors, such as Washington State University-supported Centers for Business Excellence and the Citizens Democracy Corps, have provided technical assistance to companies with excellent growth potential. Important business-related laws covering intellectual property protection to bankruptcy were assisted by ABA/CEELI's Rule of Law program.

USAID technical assistance provided significant help in accelerating the use of IBRD's Farmers and Enterprise Support Project (IBRD $100 million and EBRD $75 million). Agriculture Cooperative Development International (ACDI) staff established a training program for the two Romanian banks responsible for managing these funds, working with executives and staff to improve skills. Volunteers in Overseas Cooperative Assistance (VOCA) followed with in-bank advisory assistance. Lastly, staff from Land O'Lakes assisted dairy businesses with preparation of loan requests and provided pre-screening services to the banks.

The Romanian American Enterprise Fund, which was established in June 1994, has so far approved direct investments of $3.5 million to eight companies.

Privatization: The Romanians took significant steps forward in reducing the number of publicly-owned enterprises. A functional banking system and new financial markets to underpin private sector support also began to take shape. SEED support for pre-privatization financial restructuring produced tangible results in 1995. A total of 123 restructuring programs for large state enterprises were completed. These programs identified over $110 million in short-term cost savings and concluded debt restructuring plans for $1 billion. In addition, a total of 250 companies in the portfolio of the Private Ownership Fund/Brasov, which received assistance from U.S. advisors, were privatized. And, a bankruptcy law was passed in August 1995, providing protection to restructuring companies.

A World Bank Financial and Enterprise Sector Adjustment Loan (FESAL) for $250 million was executed in 1995. The loan calls for activities related to enterprise privatization, financial sector reform, and enterprise restructuring. USAID worked with the major donors to coordinate efforts, particularly relating to targets for enterprise privatization.

In 1995, USAID undertook a major new assistance effort to support the development of a transparent and efficient capital market in Romania. The development of a viable capital market is essential for the long term success of Romania's new mass privatization program.

Assistance to the agricultural land privatization program was also successfully implemented. The percentage of private landholders with legal titles increased to over 50 percent. Cumulative transactions increased by 25% in 1995 in private sector land and housing sales. Sophisticated technical assistance using satellite technology and parallel support financed through local currency generations are being provided through a USAID agricultural program. These efforts address current constraints to issuing clear titles to private agricultural land owners, and lay the groundwork for an anticipated IBRD titling project.

Bank Reform: The USG supported bank privatization efforts by providing pre-privatization assistance to the Romanian Bank for Foreign Trade, one of the five State-owned banks which should become eligible for privatization. The U.S. Department of the Treasury also offered assistance in developing specific privatization plans for the banking sector.

Fiscal Performance: With SEED-financed technical assistance from the Department of the Treasury, the GOR consolidated its national accounts, keeping better track of its funds flow and enabling greater control over revenues and expenditures. Government securities advisors focussed on the legal framework, development of the primary market, and approaches to debt management. SEED financing has also fostered several cooperative partnerships with U.S. electrical utilities to improve the energy efficiency of the power sector and its major clients. These efforts have reduced government subsidies, thereby relieving pressure in public spending.

Large Industry Profitability: USAID technical assistance prepared the original sector analyses and restructuring recommendations for the World Bank's Petroleum Rehabilitation Project (total cost $345.6 million). This project makes the industry more efficient and less destructive to the environment.

In the area of waste minimization, programs are being applied in four major industrial plants. Cost reductions amounting to $1.7 million were achieved at the ARPECHIM Refinery and Petrochemical Complex.

Next Steps: The new MPP program will greatly expand the private sector by shifting perhaps 10% more of GDP from the state to private hands. It is also expected that in 1996, over 3,000 companies will have been privatized. Likewise, a well-functioning, transparent secondary trading forum for potential stockholders will give Romanian citizens the opportunity to fully participate in the MPP and attach a market value to the issued coupons. More progress in the issuance of titles for land is also expected.

Democratic Development:

The building of democratic attitudes, practices and institutions, critical to future stability, are slowly but firmly taking root. The September 1992 elections in Romania were declared "free and fair" due in part to the efforts of USAID and other donors who provided assistance in poll monitoring, voter education, and electoral management. During 1995, election awareness and monitoring NGOs such as International Foundation for Election Systems (IFES), International Republican Institute (IRI), and National Democratic Institute (NDI) continued their programs. Other programs addressed the issue of public participation in local government and accountability of elected officials. Specific voter election awareness drives in preparation of the 1996 elections were also initiated.

Parliamentary Strengthening: To improve the legislature's ability to make decisions based on independent and sound policy research, USAID is working with the Congressional Research Service (CRS) to assist parliamentarians through training programs, and greater access to information. In addition, ABA provided continued assistance to the School of Magistrates, and sponsored seminars for young magistrates and lawyers, who interpret the laws enacted by the Parliament.

Local Governments: Ongoing SEED-funded municipal infrastructure projects in three cities dealt with backlogs for customer services, management improvements and increased reliability of services. These activities helped reduce backlogs in requests for water, sewage, and heating services.

In addition, EBRD's Municipal Utilities Development Project ($65 million) will be financing infrastructure improvements in five cities. In two of those cities (Brasov and Craiova) USAID is assisting the implementation of infrastructure development activities through the International City/County Managers Association (ICMA).

Next Steps: USAID anticipates providing election-related assistance for the 1966 elections. The most critical pieces of legislation concerning electoral laws are expected to be in place in 1996. Together with support for the 1996 elections, both Parliamentary and Presidential, this support will have further strengthened Romania's maturing democratic process.

Social Sector Restructuring/Quality of Life:

The USAID program targets the special circumstances facing children in Romania. In addition, it attempts to reduce dependency on social welfare and produce changes in the health system, particularly impacts from environmentally degrading practices which characterized the former Communist regime.

Child Care Improvements: As a result of USAID's intervention, neonatal care protocols have been developed in seven cities and the General Practitioner Associations are beginning to introduce quality assurance concepts, including establishment of protocols and standards, plans to continue medical education for doctors and nurses, appropriate referral systems, and analysis of infant mortality and morbidity data.

Some SEED-supported programs have a direct aim of reducing human suffering and improving the long-term prospects for the disabled, i.e. UNICEF's Early Childhood Development Program promoting decision making, initiative, team work and cognitive and motor development; and World Vision's Handicapped Services Project, setting up two physical therapy rooms and training others to provide upgraded levels of service.

Orphans/abandoned children issues have also been addressed. A total of 1224 children have been reunited with their families, 65 handicapped or abandoned children were placed in foster or group homes instead of institutions, and over 450 children were adopted into domestic and international homes.

Environmental Health: The USAID program has also helped reduce health risks. For example, regulatory authorities and community representatives have worked together to improve worker health and safety in Zlatna, site of an outdated copper smelter responsible for heavy metal contamination and sulfur dioxide emissions. Air monitoring equipment was successfully installed to reduce emissions from the "Ampellum" copper smelter.

Health Reform: Since 1994, SEED technical assistance has supported three key elements of IBRD's Health Rehabilitation Project implementation (total cost $207.5 million). First, a SEED grant to UNICEF for Hepatitis B vaccinations directly leveraged the inclusion of a $15 million vaccination component in the IBRD project. Second, the Centers for Disease Control (CDC) provided training and advice in family planning logistics management, helping the GOR Ministry of Health and the National Pharmacy to better implement a large IBRD-financed contraceptive commodity distribution program. Third, ongoing assistance to regional hospitals, chosen as test sites for health finance and management reform, is laying the groundwork for an entirely new system of payment for health care services.

Worker Retraining/Placement: Through the U.S. Department of Labor (DOL), the U.S. is supporting implementation of the IBRD-sponsored Employment and Social Protection Project (total cost $96.7 million). DOL technical assistance with employment services is being coordinated with programs by other bilateral donors, notably the German Government.

Next Steps: A minimum set of standards for hospital accreditation is expected to be established and implemented in 1996. Likewise, child care improvements will continue by helping reunite 2,000 more children with their families and by assisting 700 adoptions. In order to improve the sustainability of social benefits, newborn care protocols are expected to be in effect in several hospitals.

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U.S. ASSISTANCE TO ROMANIA
TOTAL OBLIGATIONS
as of 30 September 1995
(US $000)

Obligation Amount
SAI/ESF/DA: $148,129

A. STRENGTHENING DEMOCRATIC INSTITUTIONS

Political Process and Governance		
1800003	Support of Democratic Institutions	1,938
1800017	Political Process	2,499
1800019	Democratic Governance and Public Administration	2,379
1800020	Rule of Law	870
Democratic Pluralism		
1800021	Political and Social Process	6,731
1800022	Independent Media	3,366
	Subtotal:	$17,782
	as % of Total:	12.0%

B. ECONOMIC RESTRUCTURING

Privatization and Assistance to Enterprises		
1800014	Privatization and Enterprise Restructuring	12,889
1800023	Technical Assistance to Enterprises	6,173
Improving the Business Climate		
1800026	Competition Policy, Laws & Regulations	1,749
1800027	Business Services	5,179
Investment and Trade		
1800010	Enterprise Funds	14,519
1800028	American Business & Private Sector Dev. Initiative	1,575
Human Resources		
1800002	Human Resources Program	995
1800029	Management Training & Market Economics Education	7,300
1800045	Participant Training	2,949
1800052	Customs Service Training	50
Agriculture and Agribusiness		
1800024	Restructuring Agriculture and Agribusiness	11,544
Agriculture Sector Programs		
1800048	Agriculture Development Program - Romania	10,000
Energy Efficiency		
1800030	Regional Energy Efficiency	6,740

	Subtotal:	$81,662
	as % of Total:	55.1%

C. IMPROVING THE QUALITY OF LIFE

Short-term Emergency & Humanitarian Aid		
1800016	Humanitarian Emergency Medical Supply	2,240
1800032	Non Governmental Organizations (NGO) Dev. Project	13,722
1860001	Humanitarian Assistance for Romanian Children	4,000
Employment and the Social Safety Net		
1800033	Labor Market Transition (DOL)	578
Housing		
1800034	Housing Sector Assistance	1,632
Health		
1800037	Partnerships in Health Care	5,474
1800038	Promotion of Private Health Markets	2,381
1860002	Romanian Family Planning	4,999
Environment		
1800004	Environmental Initiatives	4,746
1800039	Improved Public Sector Environmental Services	4,207
1800041	Environmental Training	1,289
	Subtotal:	**$45,268**
	as % of Total:	**30.6%**

D. MISCELLANEOUS

1800249	Audit, Evaluation, and Project Support	695
180632A	Transfers To Other US Agiencies	950
9260071	Training Eval. & Support Services	2
9361421	AID/Peace Corps Small Project Asst	19
9363038	FP Logistiocs Management	100
9363054	Population Services Fellowship Program	150
9363056	Promoting Financial Invest. & Transfers	1,100
9363078	Policy Analysis Planning & Action	400
	Subtotal:	**$3,416**
	as % of Total:	**2.3%**

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Divider Title: **POLAND**

SEED ASSISTANCE SUMMARY

Program Overview

Poland, as the first country in Central and Eastern Europe to declare its independence, began receiving U.S. assistance in 1989 with the inception of SEED Act support. Major debt restructuring and relief from the U.S. and other creditors has helped Poland through this period. Poland has served as a leader in the transition experience in the region. It was willing to use shock therapy at the earliest critical point in its transition, which succeeded in breaking its initial hyper-inflation crisis. Country progress indicators show that fundamental economic strength has been established. Inflation and debt are now contained at manageable levels, thanks to Poland's tight discipline on money supply, government budgets, and enterprise credit. Poland enacted the most profound reforms in the region, notably, more enterprise restructuring and shedding of excess labor, resulting in major productivity increases at the enterprise level. Poland is second only to Albania in having the highest rate of economic growth in the region. U.S. funding levels have declined annually since 1992.

With U.S. assistance, Poland has seen an impressive increase in privately owned businesses (now producing over half of Poland's GDP) bolstered by an improved policy climate, greater competition within the banking sector, expansion of mortgages and development of new financial products and capital markets, and the introduction of models for environmental improvement, housing privatization, and delivery of key services. U.S. assistance has also further strengthened democracy in Poland through its focus on the role of local governments, and the broadening of participation, notably through non-governmental organizations.

The USAID program in Poland in 1995 contributed to all three of the SEED Act's strategic assistance areas: economic restructuring, the transition to democracy, and to a more limited extent, improving the quality of life. In view of Poland's transition, USAID is focussing the program to intensify efforts on aspects critical to Poland's eventual phase out from assistance. The major objectives through FY 95 were:

* **Stimulating Private Sector Development** by assisting with the mass privatization program; strengthening the marketing and business planning of entrepreneurs; expanding small and medium enterprise credit programs; developing collateral and bankruptcy laws, and related property registries needed to implement the collateral law; and helping over 300 home builders/developers.

* **Developing a Competitive, Private Financial Sector** through upgrading financial instruments and bank procedures to international standards, privatizing state-owned commercial banks, and improving the functioning of capital markets.

* **Strengthening Local Governments** by increasing capacity to manage and deliver services, especially infrastructure, housing and health; promoting modern budgeting; and supporting municipal associations and training institutions.

* **Promoting the Active Participation of Citizens and Non-Governmental Organizations** by strengthening the sustainability of NGOs, improving their capacity to effectively participate in determining public policies, strengthening NGO support services, and training of independent media.

* **Reducing Environmental Health Risks and Promoting Sustainable Use of Natural Resources** by focussing on "hot spot" hazards including industrial landfills in Upper Silesia, air pollution in Krakow, EPA pilot projects in farm waste water management, and rationalizing energy pricing and minimizing industrial waste.

As of September 30, 1995, the U.S. has contributed over $800 million in assistance to Poland, including a little over $83 million in FY 95.

Program Impact

Economic Growth:

The Polish economy expanded by 5% in 1994 and estimated 6% in 1995, with the private sector accounting for roughly 60 % of GDP. The private sector share of employment reached 61% by the end of 1994. Private sector industrial output rose by 23 %, while that of State enterprises expanded by only 6%. Inflation dropped to around 32% in 1994. As the largest domestic market in the region, Poland has great potential for attracting foreign investment now that economic stabilization is completed and growth is steady.

Privatization: Poland's long-awaited Mass Privatization Program (MPP) was launched and 15 National Investment Funds (NIFs) were created, which now own the major stake in and manage 500 state-owned enterprises (SOEs). Distribution of NIF universal share certificates to all adult Poles and of 15% of the shares to employees of the MPP companies began in 1995. USAID-funded advisors have assisted with the conceptual and regulatory design of the MPP and helped negotiate the compensation agreements for NIF managers and plans for share distribution. USAID has helped stimulate interest in the privatization of locally-managed SOEs by conducting business skills and privatization training for 1,100 persons representing the work force, owners, and managers of 293 SOEs. Over two-thirds of participating SOEs have decided to privatize.

Private Sector Growth: USAID has contributed to the rapid expansion of the private sector by directly providing help to 658 Polish small businesses to develop plans as well as to improve their marketing and overall enterprise management. By collaborating with Polish consultants to undertake technical assistance assignments, a small cadre of independent, experienced local business experts has been formed, capable of meeting the needs of a modern market economy. Consulting groups at the Olsztyn and Krakow agricultural universities have been trained and are now able to secure fee-for-service business.

To help new small businesses acquire the financing needed for business expansion, USAID has helped create a special small business credit program through the Polish American Enterprise Fund which has now consolidated with a Polish bank. This program has extended 4,300 loans to small enterprises valued at over $100 million. Of 15 equity investments made so far, returns are estimated at over 25% per annum. The Polish Foundation for the Support of SMEs has successfully lobbied the government to adopt a formal strategy in support of small business. USAID-financed technical assistance was instrumental in establishing the foundation and in helping to formulate the government policy statement. In addition, a modern collateral law was approved by the Polish Council of Ministers and recently submitted for consideration by Parliament.

A Competitive, Private Financial Sector: Of the initial nine regional state-owned commercial banks, four have been privatized, two over the past six months. Two major banks, PKO BP and PBK, have designed and launched their own mortgage programs. The surety and safety of the banking system were considerably enhanced by creation in February 1995 of a new bank guarantee fund which insures small depositors against loss in the event of bank failure. USAID had provided policy advice on the parameters for the new deposit insurance scheme.

Thanks to USAID assistance the Polish National Securities Depository now meets international standards for securities clearance and settlement, security dematerialization, and independence. The Polish brokerage community has agreed to form a private self-regulated entity to own and operate an Over-the-Counter (OTC) Market. USAID advisors have helped the brokerage community agree on the kind of trading system and market to be developed and have designed the necessary communication linkages so that the OTC market can operate. Finally, a mortgage and construction lending system became operational, as demonstrated by banks approving over 740 mortgage applications.

Next Steps: SEED activities will focus on stimulating private sector development at the firm-level and creating a market-oriented private financial sector. More state-owned banks will be privatized, bank supervision will improve, and the percentage of housing constructed by the private sector will increase. Longer term capital will be provided for municipal projects through commercial bank lending and the issuance of municipal bonds. Energy activities will be refocused to support private enterprise development.

Democracy:

Democracy in Poland has developed rapidly, and the necessary laws and legal institutions to support democratic processes are in place. Local governments have assumed greater responsibility and are demonstrating increased capacity. The NGO sector is increasing in diversity, growing to over 12,000 organizations since independence. In addition, Poland now boasts more than 1,000 independent newspapers and periodicals with national, regional, or local circulation.

Democratic Processes: Through the U.S. Library of Congress, USAID assisted the Polish Parliament to develop independent, effective research and analysis offices. Polish parliamentarians will have greater access to information from the United States and throughout the region, and their information system will be able to support greater use and inquiries from outside users.

Local Governments: Currently between 30-50% of local government revenues are self-generated, primarily through property taxes and user fees. Recognizing the importance of strong local government in a democracy, USAID has concentrated on public administration activities, and housing and urban development. As a result, municipal associations and support institutions have been strengthened, including creation of a Municipal Development Agency; modern budgeting techniques are being disseminated throughout the country; dozens of localities have prepared financeable infrastructure projects; and a $50 million loan from the World Bank and a

$4.0 million ECU grant have been leveraged for infrastructure. In addition, local lobbying has improved, which led to changes in the housing allowance law reflecting more equitable treatment related to housing stock and burden.

Citizen and NGO Participation: The number of NGOs in Poland has increased dramatically, but most need technical assistance and training to strengthen themselves and successfully raise funds. In response, USAID has facilitated several NGOs and community groups that provide business advisory services. A group of 100 ecological NGOs have improved skills in financial management, fund-raising, conflict resolution and joint planning. USAID is also supporting the Free Trade Union Institute which has helped to establish 13 Bureaus of Consultation and Negotiation, providing factory commissions with the economic and legal expertise necessary in labor-management negotiations. Through a grant to USIA, civic education and economics courses are being taught in over 60 primary/secondary schools.

Independent Media: Access to information is not limited in Poland and several international news agencies offer their services to Polish newspapers. Public TV/Radio are successful in the difficult task of maintaining full programmatic independence from the government that subsidizes them. USAID continues to provide assistance to strengthen the capacity of the Warsaw Journalism Center (WJC) to meet the needs of the media sector through training seminars, courses for the professional media community, and the establishment of a practical two year training program. A proposed Press Law that would create a new national body to indirectly control the press is being strongly contested.

Next Steps: Given progress across all democracy fronts, USAID will increasingly concentrate resources on the objective of making local government more effective, responsive and accountable. Such assistance will target: building internal resource management capacity, strengthening financial and legal authority, fostering citizen involvement, improving service delivery, developing capital budgeting and planning capacity, and stimulating self generated revenues. The Warsaw Journalism Center will become self-sustaining in 1998, ensuring the continued professional training of the Polish press and media. NGO activities will emphasize relationships and contributions to local government development.

Social Sector Restructuring/Quality of Life:

The Government of Poland has proposed a public pension reform legislation package and a health insurance plan. Both proposals are controversial and have generated considerable criticism and debate. The long-expected reform in the Polish Social Security Administration leading to the development of a "single identifier system" for tracking individual contributions has recently been initiated under an EU program. The Social (Welfare) assistance system is working relatively well, since decentralization in 1990. New environmental regulations strongly promote pollution prevention through the introduction of economic incentives and waste minimization.

Social Benefits and Services: Beginning in 1995, USAID's activities in this area are focusing on health service delivery at the local government level, especially local government capacity to contract for goods and services, and strengthening the capacity of individual health facilities to deliver services more autonomously.

Natural Resources: Since 1990, Poland has channeled significant resources into water pollution abatement, resulting in a 22% decrease in municipal wastewater discharge into surface water between 1990 and 1993. Two municipal wastewater treatment plants became operational in 1995 and two USAID-assisted municipalities received Presidential awards as having the best ecological records in Poland. A new water management law is in preparation. In 1995, waste minimization practices in 52 companies resulted in a decrease in disposal of 45,000 tons of sulfuric acid, 1,530,000 tons of wastewater, and 1,010 tons of ammonia. The participating companies realized savings of over $7.0 million and generated $1.5 million in investments. USAID assistance has also worked on reducing low-level air emissions in "hot spot" areas.

SEED funds have financed technical assistance on environmental policy. Recommendations have covered the use of economic measures in environmental management. Furthermore, advisors have worked closely with national and regional groups to strengthen technical and managerial capacities.

Labor Training: The U.S. Department of Labor is providing assistance to reform employment services, to improve techniques of labor-management relations, and upgrade worker skills. Through an interagency agreement with USAID, the Department of Labor provided much-needed training in 1995 to improve workers' construction skills. Two training centers have been established and more than 1500 graduates placed in jobs. Also, 50 management and union members at Ostrowiec Steelworks were provided training in how to operate an employee-owned enterprise. The Steelworks, an employee-owned company previously unprofitable, showed a remarkable improvement in sales, productivity and profit.

Next Steps: The reform of the social benefit system is a huge undertaking that requires close collaboration between Poland and the EU as part of its move towards EU membership. U.S. assistance will be limited to strengthening the capacity of local governments to test and disseminate new models for more autonomous health finance and service delivery, and addressing environmental "hot spot" hazards to human health.

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U.S. ASSISTANCE TO POLAND
TOTAL OBLIGATIONS
as of 30 September 1995
(US $000)

Obligation Amount
SAI/ESF/DA: $805,480

A. STRENGTHENING DEMOCRATIC INSTITUTIONS

	Political Process and Governance	
1800003	Support of Democratic Institutions	3,193
1800017	Political Process	2,414
1800018	Local Government and Public Administration	1,600
1800019	Democratic Governance and Public Administration	12,124
1800020	Rule of Law	307
	Democratic Pluralism	
1800021	Political and Social Process	5,560
1800022	Independent Media	2,394

Subtotal: $27,590
as % of Total: 3.4%

B. ECONOMIC RESTRUCTURING

	Macroeconomic Support	
1800008	Polish Stabilization Fund (Treasury)	199,140
	Privatization and Assistance to Enterprises	
1800014	Privatization and Enterprise Restructuring	40,142
1800023	Technical Assistance to Enterprises	41,751
	Improving the Business Climate	
1800026	Competition Policy, Laws & Regulations	5,768
1800027	Business Services	14,520
1800035	Bank Training (Treasury)	2,148
	Investment and Trade	
1800010	Enterprise Funds	254,500
1800028	American Business & Private Sector Dev. Initiative	7,123
1800047	Removing Impediments to Trade Enhancement (RITE)	250
	Human Resources	
1800002	Human Resources Program	13,594
1800029	Management Training & Market Economics Education	15,527
1800045	Participant Training	6,430
	Agriculture and Agribusiness	
1800005	Assistance to Private Farmers (Poland)	10,000
1800024	Restructuring Agriculture and Agribusiness	32,131

Energy Efficiency

1800030	Regional Energy Efficiency		11,508
1800031	Krakow Clean Fossil Fuels and Energy Efficiency		17,500
		Subtotal:	**$672,031**
		as % of Total:	**83.4%**

C. IMPROVING THE QUALITY OF LIFE

	Short-term Emergency & Humanitarian Aid		
1800016	Humanitarian Emergency Medical Supply		325
1800032	Non Governmental Organizations (NGO) Dev. Project		9,954
	Employment and the Social Safety Net		
1800033	Labor Market Transition (DOL)		17,255
	Housing		
1800034	Housing Sector Assistance		29,008
	Health		
1800006	Medical Supplies, Equipment & Training (Poland)		498
1800037	Partnerships in Health Care		4,880
1800038	Promotion of Private Health Markets		4,306
	Environment		
1800004	Environmental Initiatives		21,100
1800039	Improved Public Sector Environmental Services		10,761
1800041	Environmental Training		2,393
		Subtotal:	**$100,480**
		as % of Total:	**12.5%**

D. MISCELLANEOUS

1800249	Audit, Evaluation, and Project Support		2,915
180632A	Transfers To Other US Agiencies		1,340
9260071	Training Eval. & Support Services		5
9361421	AID/Peace Corps Small Project Asst		19
9365974	Health Care Financing & Sustainability		100
9400017	Financial Services Volunteer Corps		1,000
		Subtotal:	**$5,380**
		as % of Total:	**0.7%**

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Divider Title: **CZECH REPUBLIC**

SEED ASSISTANCE SUMMARY

Program Overview

U.S. assistance to Czechoslovakia to support the rapid pace of economic and democratic reforms began in August 1990. This assistance was delivered to both Republics, contributing to the minimal level of disruption when the Czech Republic and Slovakia became independent nations in January 1993. Since the inception of the SEED program, the U.S. has helped the Government of the Czech Republic (GOCR) transfer state-owned assets to the private sector; put in place a policy, legal and regulatory framework for private sector development; create a competitive, efficient, private financial sector; promote self-sustainable use of natural resources;

and enact legislative reforms that support democratic processes. The U.S. has also encouraged the active participation of citizens and NGOs in the political and economic decision-making process. Concurrently, USAID has helped strengthen local governments and municipalities to make them effective, responsive, and accountable. The U.S. has supported reducing environmental risks to public health and improving the sustainability of social benefits and services.

The U.S. has played a key role in the success of the Czech economic and political transformation, but credit should be given foremost to the Czech leadership for its vision and commitment to successful policies. The U.S. has provided targeted, demand-driven assistance throughout the transition process. Of the emerging European democracies, the Czech Republic has one of the most developed industrial economies. It is viewed as a model of successful transition, and there is general optimism about the medium-term and long-term outlook. Over the past year, U.S. assistance has had a tighter focus. Assuming that economic and institutional reforms continue at their present pace, the USG will complete its assistance program by September 30, 1997.

Five priorities remain to enhance the likelihood of consolidating the transition: 1) furthering economic transformation, including privatization and restructuring; 2) strengthening local governments through public administration reform, municipal financing and management; 3) supporting civil society development; 4) improving the quality of life through work in energy, environment, and health; and 5) bolstering human capital, focusing on financial and managerial skills.

The U.S. contributed nearly $145 million in SEED assistance to the Czech Republic as of September 30, 1995. The FY 1995 portion of the aggregate was a little over $19 million.

Program Impact

Economic Growth:

In 1995, the Czech Republic continued to experience significant progress in transforming its economy. The economy expanded at a 4% rate, the second consecutive year of positive growth following the downturn of 1990-1993. Further confirmation of the Czech Republic's rapid progress in reform arrived with the introduction of a new exchange rate policy on October 1, 1995, which allows for full current account convertibility and further liberalization of the capital account. This move, along with the abolition of the bilateral clearing agreement with Slovakia, opened the door for the country's accession to the OECD in November 1995.

Private Sector Gains: In general, the Czech Republic is a good place to do business. The private sector contributed about 65%-75% of the GDP in 1995. Wages continue to grow, and inflation has stabilized. The demand for services remains strong and stimulated the growth of thousands of small businesses in the past five years. The GOCR continued to reduce corporate and individual tax rates. It worked hard to modify transactions policy and tax law to meet OECD membership criteria. SEED assistance helped the GOCR establish a free-market legal and regulatory framework and private sector growth by (1) promoting bank restructuring and resolution of enterprise debts; (2) supporting the acceleration of the mass privatization program; (3) encouraging the application of modern tax laws and competitive regulatory frameworks for business, including the energy and telecommunications sectors; and (4) supporting the transfer of market economy knowledge to Czech entrepreneurs through business and economics training.

Privatization: In 1993 and 1994, privatization of approximately 3,200 state-owned enterprises occurred. Virtually all small and medium enterprises are in private hands. In 1995, the GOCR selected a foreign investor for a stake in the telecommunications sector, bringing in over $1 billion, and gaining partners with strategic plans for modernization and improved services. Direct foreign investment has continued to grow and the largest banks began to air plans for privatization and foreign partnerships. SEED-funded experts made a significant contribution to the process by helping to privatize over 130 enterprises through identifying and negotiating with foreign investors, who have invested $3.4 billion since 1992 (over 20% from U.S. sources). Compliance work for the National Property Fund ensured that foreign investors abide by the terms of their purchase contracts, including commitments on restructuring and investment, thereby strengthening public confidence in the free market economy.

Private Enterprise Development: Training opportunities in business and management, direct foreign investment, and foreign know-how have contributed to entrepreneurship and profitability in new firms. Privatized and new small and medium enterprises (SME) have created thousands of new jobs, absorbing a large portion of the shifting labor force. USAID advisors helped Czech businesses rationalize operations, market goods, manage personnel, and improve profitability. U.S. volunteer organizations greatly contributed to enterprise development by providing essential business advisory services. The U.S. provided local businessmen the opportunity to enhance skills through practical management training with the American business community. Over 1000 SME owners and managers were trained to apply market economics, financial management, and marketing in their business activities. The Czech Management Center and the Center for Economic Research and Graduate Education (CERGE) continue to produce a local pool of business-oriented graduates for employment in the private sector. Both institutions now train students from the NIS and other CEE countries. In the energy sector, USAID advisors assisted energy production and distribution enterprises to rationalize operations and improve strategic management in preparation for privatization.

Private Financial Sector Development: In 1995, with the help of U.S. advisors, both the large Czech Trading Bank (CSOB) and the Prague Stock Exchange (PSE) improved operations and instituted strategic plans. The CSOB also received U.S. assistance to upgrade information management and restructure operations, resulting in increased assets and profits.

The Municipal Finance program, in cooperation with the GOCR and commercial banks, successfully introduced competition to the municipal lending sector and surpassed every performance objective for 1995. As a result, interest rates were reduced and loan maturities extended. The first $20 million tranche of the Housing Guaranty (HG) loan program helped four banks finance 23 municipal infrastructure projects with lower interests rates than ever before. Technical assistance to participating banks produced more flexible collateral requirements and more project financing by attracting other commercial banks to this sector. This program is a high priority for the GOCR.

Next Steps: During phasedown of the SEED program, USAID will concentrate on completing restructuring, providing privatization support, and creating models for similar key efforts after U.S. assistance ends. Planned activities in partial privatization of energy distribution enterprises was postponed in 1995, but should go forward in 1996. Funding to the CSOB and the PSE will target critical areas to ensure the viability of the financial sector, and the Municipal Finance program will focus on infrastructure projects and reducing lending rates through competition among commercial banks. Participating banks will begin using their own resources for municipal lending by matching HG funds with a minimum ratio of 20%.

Building Democracy:

The basic institutions necessary for a vibrant democracy are in place. The Czechs held free and fair multiparty elections, have a smoothly functioning central government, legislature, and judiciary, and enjoy access to diverse opinions in the media. Efforts continue under the SEED program to enhance local governments and support the development of a civil society.

Local Government: Significant progress was made in strengthening local governments as revenue and budgets devolved to this level. Public officials are competitively elected, have demonstrated considerable skill in managing public resources, and have been responsive to the needs of citizens. A new public procurement law, providing for transparent and competitive conditions for all purchases went into effect on January 1, 1995.

USAID encourages local government support through the Public Administration activity (including public procurement legislation) and the HG program that funds the Municipal Finance activities. Over 300 municipalities and more than 700 public administrators, municipal managers, and infrastructure professionals participated in technical assistance and training activities on capital budgeting and financial management. This assistance helped many small municipalities to initiate planning and budgeting for priority infrastructure activities.

Political Process: Political debate remains robust and open, and although the number of political parties diminished recently, this is widely viewed as a sign of maturation in the electorate. Recent passage of the not-for-profit law, drafted with SEED assistance, is an important element in creating an atmosphere conducive to organized participation of different interest groups. This law recognizes the status of NGOs as private providers of services and brings under one law all existing regulation and tax treatment for these entities.

U.S. assistance provided training for non-profit managers in financial and personnel management, while communications training undertaken by the Democracy Network Project allowed NGOs to pool resources and ideas, forging alliances for political and social action. This USAID activity provides a lifeline to NGOs, including charities providing services not covered by the state and those which partner with public officials and businesses. The Public Administration activity also encourages public-private partnerships in planning, creating, and maintaining the economic and civic infrastructure of the municipalities.

Next Steps: By mid-1996, the Democracy Network will provide support to over 100 NGOs. The Public Administration pilot projects will establish citizens' advisory councils in at least five municipalities to participate in decisions regarding economic development. Under the Housing Guaranty program, special pilot training will be conducted to help financial directors in 12 cities develop performance indicators. The process can then be used as a model for over 300 other towns. USAID funding to the International Center for Not-for-Profit Law will facilitate both full implementation of the non-profit law and the enactment of a new charitable foundation law.

Social Sector Restructuring/Quality of Life:

U.S. assistance reflects overall priorities of the GOCR leadership, with individual activities helping to reduce environmental risks to public health and improving the sustainability of social benefits and services.

Environment: The Czech Republic made quantifiable progress in reducing environmental risks to public health through improved identification and regulation of risks, economic investment and efficiency gains that eliminate wasteful polluting processes. Air and water quality continuously improved as inefficient fuels were replaced, production declines lowered consumption, and the worst polluters were simultaneously confronted with improved regulation and enforcement. U.S. assistance in 1995 contributed significantly to alleviating health risks by addressing these environmental problems. The U.S. Environmental Protection Agency's trans-border Project Silesia offered strategies to lower risks in that industrialized region. Industrial pollution, now monitored daily in the region, dramatically declined. Nationally, over the past five years, SO_2 emissions were reduced 36%, NO_x reduced 60%, and particulate emissions were cut in half. Assistance to the State Environmental Fund (SEF), a trust fund for mediating pollution and clean energy conversions, set priorities, developed a strategic plan and managed operations. The U.S. Department of Energy (DOE) improved operational safety and risk assessment at Dukovany Nuclear Power Plant and the Nuclear Regulatory Commission (NRC) assisted its Czech counterpart to improve oversight and licensing capabilities at the Temelin Nuclear Plant, due to come on line in 1997.

The Environmental Action Program Support (EAPS) Project has assisted the State Environment Fund by reviewing operating procedures and developing a model for improved lending practices. EAPS is also identifying and developing economically viable projects to alleviate ambient air pollution and health problems in the seriously affected regions of Bohemia and Moravia.

Health: Economic, nutritional and environmental conditions have improved in the Czech Republic. Life expectancies, morbidity, and infant mortality rates have all changed for the better in the past five years. USAID activities directly contributed to the sustainability of health services by improving quality of care, lowering costs through better management, and providing learning opportunities for health management professionals. U.S. assistance is effective in establishing health care standards (quality assurance) that will lead to health care institutions' accreditation and improved hospital management.

Next Steps: Ongoing activities include assistance to municipalities in project preparation for SEF funding to improve environmental conditions. DOE and NRC will continue their SEED-funded work to ensure nuclear safety in the Czech Republic. Resources are in place for successful completion of health sector activities in the next two years. In 1996, the model hospital management improvements package is expected to be replicated across the Czech Republic in over 50 hospitals.

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U.S. ASSISTANCE TO CZECH REPUBLIC
TOTAL OBLIGATIONS
as of 30 September 1995
(US $000)

Obligation Amount
SAI/ESF/DA: $144,673

A. STRENGTHENING DEMOCRATIC INSTITUTIONS

	Political Process and Governance	
1800003	Support of Democratic Institutions	570
1800017	Political Process	93
1800018	Local Government and Public Administration	325
1800019	Democratic Governance and Public Administration	3,570
1800020	Rule of Law	494
	Democratic Pluralism	
1800021	Political and Social Process	855
1800022	Independent Media	1,187

Subtotal: $7,093
as % of Total: 4.9%

B. ECONOMIC RESTRUCTURING

	Macroeconomic Support	
1800043	Czechoslovakia (Environment)	9,999
	Privatization and Assistance to Enterprises	
1800014	Privatization and Enterprise Restructuring	27,632
1800023	Technical Assistance to Enterprises	4,639
	Improving the Business Climate	
1800026	Competition Policy, Laws & Regulations	1,949
1800027	Business Services	2,591
1800035	Bank Training (Treasury)	1,074
	Investment and Trade	
1800010	Enterprise Funds	26,000
1800028	American Business & Private Sector Dev. Initiative	4,522
	Human Resources	
1800002	Human Resources Program	2,929
1800029	Management Training & Market Economics Education	11,205
1800045	Participant Training	2,901
	Agriculture and Agribusiness	
1800024	Restructuring Agriculture and Agribusiness	4,843
	Energy Efficiency	
1800030	Regional Energy Efficiency	7,276

	Subtotal:	$107,560
	as % of Total:	74.3%

C. IMPROVING THE QUALITY OF LIFE

	Short-term Emergency & Humanitarian Aid	
1800016	Humanitarian Emergency Medical Supply	372
1800032	Non Governmental Organizations (NGO) Dev. Project	3,756
	Employment and the Social Safety Net	
1800033	Labor Market Transition (DOL)	225
	Housing	
1800034	Housing Sector Assistance	6,186
	Health	
1800037	Partnerships in Health Care	2,500
1800038	Promotion of Private Health Markets	5,631
	Environment	
1800004	Environmental Initiatives	2,294
1800039	Improved Public Sector Environmental Services	6,249
1800041	Environmental Training	1,531
	Subtotal:	$28,744
	as % of Total:	19.9%

D. MISCELLANEOUS

1800249	Audit, Evaluation, and Project Support	502
180632A	Transfers To Other US Agiencies	750
9260071	Training Eval. & Support Services	5
9361421	AID/Peace Corps Small Project Asst	19
	Subtotal:	$1,277
	as % of Total:	0.9%

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Divider Title: **SLOVAKIA**

SEED ASSISTANCE SUMMARY

Program Overview

With the peaceful dissolution of the Czech and Slovak Federal Republic, Slovakia became an independent nation on January 1, 1993. The SEED program, which started in January 1992 with the establishment of an office in Bratislava, was positioned to respond to the rapid pace of economic and democratic reforms. The U.S. was the first donor to establish a presence in Slovakia. As a result, the U.S. remains a major player in helping Slovakia establish a policy, legal and regulatory framework conducive to free market principles. USG programs stimulate private sector development, strengthen the effectiveness, responsiveness, and accountability of local governments, and promote fiscal reform and discipline. The U.S. also encourages citizen and non-governmental organizations (NGOs) participation in political and economic decision-making, promotes the flow of information by strengthening the independent media, and facilitates the development of a competitive and fair political process.

The goal of SEED assistance is to help root Slovakia firmly in the Western economic and political community and to accelerate its transformation toward a pluralistic society and a market economy. While significant progress has been made toward democracy and competitive markets, the picture has been marred by the centralizing policies of the current national government. An assistance strategy aimed at increasing pluralism, decentralization of decision-making and establishing a market economy will help counter these trends.

Today the U.S. assistance efforts emphasize:

* *Efforts to ground Slovakia in a tradition of democracy and pluralism* by strengthening non-governmental organizations, facilitating educational reform, establishing a multi-voiced media, preparing elected officials to manage city affairs, and providing technical assistance for the creation of an independent judiciary.

* *Accelerating the transition to a market economy* by restructuring enterprises and creating a strong financial system, while encouraging the growth of small and medium-sized private enterprises and a private sector housing market.

* *Helping to improve the quality of life* through promotion of quality health care and prevention and rationalizing housing allowances.

The U.S. has contributed a little over $140 million in SEED assistance to Slovakia as of September 30, 1995. The FY 1995 portion of the aggregate was a little over $29 million.

Program Impact

Economic Growth:

The Slovak economy enjoyed an impressive turnaround of 5% real GDP growth in 1994 after a cumulative GDP decline of 24% between 1990 and 1993. In 1995, this growth continued with a probable GDP increase of more than 6%. The country experienced strong export growth, resulting in a trade surplus for the first nine months. Industrial production, which fell by more than 10% in 1993, rose by an estimated 7% in 1994 and increased by 7.9% for the first nine months of 1995. Tight monetary and fiscal policies have succeeded in curbing inflation. According to EBRD figures, in 1994, inflation was 13%. The annual rate for 1995 was expected to be 11%, according to EBRD estimates. Unemployment declined to less than 13%.

Private Sector Gains: The private sector contribution to overall GDP increased from 1994 to an estimated 60%. Most prices are free, with foreign trade relatively liberal and thriving. SEED assistance helped Slovakia establish a market-oriented system and legal and regulatory frameworks conducive to competition and private sector growth by promoting bank restructuring and workout of enterprise debts; encouraging application of modern tax laws; improving Slovaks' entrepreneurial skills through business and economics training and advice; and assisting the development of a capital market. The U.S. also supported training for the banking and financial sectors. Working through the Institute for Banking Education, U.S. assistance programs sponsored nearly 2,000 participants in banking courses from 1992 to 1995. Under USAID's participant training program, close to 100 Slovaks from the banking and financial sector received hands-on experience in the United States.

Privatization: After much stagnation, the privatization process accelerated after April 1995. The government has set June, 1996, as a target for completing the second wave of privatization, which includes an estimated 500 to 600 medium to large enterprises. Privatization of small enterprises, in addition to approximately 500 medium and large enterprises, was completed in the first wave in 1991-92. This first wave of privatization constituted 98% of small and medium enterprises. Privatization of state-owned housing units by sale to their occupants is accelerating.

Private Enterprise Development: Enterprise assistance focuses on privatized small and medium-sized firms (SME) with growth potential. Funding to the Slovak American Enterprise Fund (SAEF) fosters the development of SMEs through equity investment and loans to more than 50 Slovak companies. As of the end of FY 95, the SAEF has approved over $19 million in direct investments to some 30 companies. In addition, another $1 million was provided to 25 small businesses under the SAEF's small loan program. U.S. volunteer organizations have also contributed significantly to enterprise development by providing business advisory services. To date, the U.S. has helped 140 entrepreneurs and senior level managers enhance their skills through management training in the United States. USAID has also helped the government develop pro-business regulations to implement the public procurement law and train local officials in the administration of competitive contracting.

Market Reforms: The U.S. has promoted economic liberalization in Slovakia. Early assistance was targeted toward antimonopoly efforts. The U.S. Treasury Department helped reform tax laws and regulations, while addressing fiscal and budgetary policy issues. ABA-CEELI was key in preparing amendments to the current bankruptcy code for Parliament's approval. USAID has also advised the National Bank of Slovakia, representatives from ministries, banks, local governments, and construction and real estate groups in mortgage lending and allocation of central government funds for housing assistance.

Next Steps: The banking system in Slovakia is burdened by a large amount of questionable debt, much of it inherited before 1989. Many enterprises are unable to service their bank debt and qualify for new credit necessary to implement restructuring plans. To help end this cycle, the SEED program will target private sector firms to help them improve management to create a positive cash flow position and implement restructuring plans to make them profitable in the medium term. SME assistance will continue to focus on the enabling environment, supported by enterprise-level assistance and training.

Building Democracy:

SEED democracy assistance is working to develop more effective, responsive, and accountable local governments, and increased citizens' participation in political and economic decision-making.

Local Government: After the Velvet Revolution of 1989, local government was reconstituted and vested with substantial responsibility. There are over 2,800 towns and villages in Slovakia, each with a directly-elected mayor, vice-mayor, and municipal council. Elections took place in 1990 and again in 1994. The Local Self-Government Program fosters the decentralization of governmental authority and promotes democratic pluralism. The program aims to help municipalities manage their affairs in a transparent way, while providing necessary municipal services and facilities.

The International Republican Institute (IRI) works to develop the political skills of locally elected officials and political party activists. The program has increased communication and public outreach skills, encouraged negotiation and coalition-building within and among parties, and improved party organization by increasing fund-raising and recruitment abilities. IRI has also discovered better ways to solicit citizen input on local policy issues.

Informed Citizens' Participation: USAID's Democracy Network Program is strengthening the ability of NGOs to affect the formulation and implementation of public policy, act as a forum for debate and advocacy, and provide services to their constituents. The National Democratic Institute (NDI) will begin a train-the-trainers program in community organizing to work in tandem with a program funded by the National Endowment for Democracy. The University of Northern Iowa (UNI) conducts a collaborative educational reform/civic education program designed to introduce democratic teaching practices into Slovak basic schools and reform the curriculum for training new teachers. In its second year, this program has received overwhelming support from teachers and administrators.

The Media Program aims to strengthen independent media to provide the citizenry with a more balanced pool of information. It seeks a better informed public more actively participating in the process.

Political Process: The Congressional Research Service (CRS) provides assistance to the Parliament to help improve research and analytical skills of its staff. The CRS is also helping upgrade the Parliament's library and information management systems. ABA/CEELI provides assistance in the area of judicial reform, including training lawyers in commercial and bankruptcy law and reforming legal education.

Social Sector Restructuring/Quality of Life:

Since 1989, the health status of the population has decreased and life expectancy has declined. Slovakia's health providers are inefficient and inadequately managed. The government wants to guarantee quality and accessible health services, with an emphasis on women, children and elderly citizens. It has also been working to restructure the social assistance program to reduce dependence on subsidies and focus limited resources on low-income earners.

Health: Priority programs aim to reduce the number of premature deaths and increase average life expectancy. Under the partnership grant to Project Hope, the Boston Children's Hospital helped the Bratislava Children's Hospital reduce child mortality from 40% in 1989 to 7.4% in 1994. The Bratislava Children's Hospital performed 284 pediatric cardiac surgeries in 1994, compared with only 144 in 1989.

Health Care Management: USAID helped improve the efficiency and quality of care in two pilot hospitals by introducing quality management practices. A team of nurses continues to install the quality methodology developed with U.S. consultants. Current activities seek to institutionalize and replicate these practices by training lecturers in fields of health care management and developing better curriculum for public and private institutions in this area.

Environment: Most of Slovakia's critical environmental problems can be attributed to poor water quality, air pollution, and hazardous and solid waste dumping. The SEED program addresses these issues through policy advisory work carried out by the Harvard Institute for International Development (HIID), and the Environmental Health Project. USAID activities improve environmental quality and reduce related health risks by supporting economically viable pollution prevention/abatement projects. The U.S. EPA has trained central government, and regional and local staff in health risk assessment.

In addition, an HIID advisor helped draft legislation creating the Slovak Environmental Revolving Fund, which will finance urban infrastructure projects. The advisor also helped the Slovak Government prepare its presentation to an international environmental conference held recently. At the conference, Slovakia proved it is well ahead of other participating countries in preparing an effective environmental action plan. The advisor has also assisted the government in implementing aspects of this plan in two environmental "hot spots."

Lastly, USAID funds training at the local level to develop the institutional capacity needed to address environmental concerns. Workshops and training are offered to environmental NGOs and businesses, local and regional governments, and academic institutions on environmental management and approaches to pollution prevention.

Housing: USAID was instrumental in introducing the condominium approach to housing privatization in Slovakia and was a key player in drafting the conceptual antecedent of the 1993 condominium law. An estimated 10 percent of the 344,600 housing units owned by municipalities have been sold so far. USAID has also been providing technical assistance and training to help develop a program for selling city-owned housing units. This training helps explain to new unit owners how to manage and maintain a condominium. U.S. assistance is also helping the Slovak Government revise housing subsidies to focus on a needs-based housing allowance to boost the private housing market.

Through curriculum development, the USAID is bringing market-oriented engineering concepts, such as cost containment and cost/benefit analysis, into design and construction. SEED advisors are developing a mortgage law to provide the legal framework for making loans secured by real property for home purchase/construction.

Next Steps: The U.S. will help reform health policies at national and local levels. Resources will be devoted to reducing negative health impacts of industrial manufacturing and processing facilities. Training will give Slovaks better ways to deal with various health risks, including environmental pollution. Under a new hospital partnership project, USAID is continuing its efforts to develop quality health care by providing technical assistance and training for physicians. This assistance will help improve health care in areas such as neonatal intensive care, pediatrics and gynecology. The U.S. will work to improve the management and organizational skills of hospital administrators as well.

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U.S. ASSISTANCE TO SLOVAKIA
TOTAL OBLIGATIONS
as of 30 September 1995
(US $000)

Obligation Amount
SAI/ESF/DA: $140,266

A. STRENGTHENING DEMOCRATIC INSTITUTIONS

	Political Process and Governance	
1800003	Support of Democratic Institutions	456
1800017	Political Process	146
1800018	Local Government and Public Administration	325
1800019	Democratic Governance and Public Administration	679
1800020	Rule of Law	509
	Democratic Pluralism	
1800021	Political and Social Process	3,078
1800022	Independent Media	1,517
	Subtotal:	$6,709
	as % of Total:	4.8%

B. ECONOMIC RESTRUCTURING

	Macroeconomic Support	
1800043	Czechoslovakia (Environment)	5,001
	Privatization and Assistance to Enterprises	
1800014	Privatization and Enterprise Restructuring	21,663
1800023	Technical Assistance to Enterprises	8,021
	Improving the Business Climate	
1800026	Competition Policy, Laws & Regulations	2,301
1800027	Business Services	3,667
1800035	Bank Training (Treasury)	1,074
	Investment and Trade	
1800010	Enterprise Funds	39,000
1800028	American Business & Private Sector Dev. Initiative	1,928
1800047	Removing Impediments to Trade Enhancement (RITE)	76
	Human Resources	
1800002	Human Resources Program	2,464
1800029	Management Training & Market Economics Education	6,368
1800045	Participant Training	2,214
	Agriculture and Agribusiness	
1800024	Restructuring Agriculture and Agribusiness	4,484

Energy Efficiency

1800030	Regional Energy Efficiency		5,861
		Subtotal:	$104,122
		as % of Total:	74.2%

C. IMPROVING THE QUALITY OF LIFE

	Short-term Emergency & Humanitarian Aid		
1800016	Humanitarian Emergency Medical Supply		743
1800032	Non Governmental Organizations (NGO) Dev. Project		2,582
	Employment and the Social Safety Net		
1800033	Labor Market Transition (DOL)		1,042
	Housing		
1800034	Housing Sector Assistance		6,152
	Health		
1800037	Partnerships in Health Care		3,211
1800038	Promotion of Private Health Markets		4,129
	Environment		
1800004	Environmental Initiatives		3,747
1800039	Improved Public Sector Environmental Services		5,647
1800041	Environmental Training		1,502
		Subtotal:	$28,755
		as % of Total:	20.5%

D. MISCELLANEOUS

1800249	Audit, Evaluation, and Project Support		176
180632A	Transfers To Other US Agiencies		500
9260071	Training Eval. & Support Services		4
		Subtotal:	$680
		as % of Total:	0.5%

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Divider Title: **HUNGARY**

SEED ASSISTANCE SUMMARY

Program Overview

The U.S. plays an important role in assisting Hungary to complete the economic and political transformation now under way. The USG supports Hungary's drive for prosperity based on private ownership and a free market economy, democratic pluralism, and integration into Western economic and security institutions.

Since SEED assistance was initiated in 1991, a little over $217 million have been obligated, principally in technical assistance and training. About one third of this amount was in the form of a $70 million grant to the Hungarian-American Enterprise Fund, enabling the latter to engage in equity participation, limited lending, and technical assistance. Other major program outlays have been in privatization and enterprise restructuring, technical assistance to enterprises, management and market economics training, agribusiness and agriculture restructuring, housing, energy efficiency, strengthening of democratic institutions, and a one-time energy sector support grant.

The SEED program emphasizes assistance to:

* **speed economic reform** through privatization, enterprise restructuring, and transfer of business know-how, and by enhancing domestic credit opportunities through banking reforms;

* **strengthen democratic institutions** by helping local governments and indigenous NGOs to assume administrative, representational, and social service responsibilities formerly borne by the central government; and by promoting free and independent media through technical support and training; and

* **improve living standards** by combatting unemployment, environmental degradation, inadequate housing infrastructure, and deteriorating health infrastructure.

Program Impact

Fundamental steps have been taken to establish a free market economy; there has been considerable progress in privatizing State-owned enterprises; and a liberal foreign investment policy has attracted private foreign investment. The private sector now accounts for about 60% of GDP, and the Hungarian currency has become fully convertible on the current account. While Hungary's macro-economic situation was on the upswing at the end of 1995, the economy remains in transition and continues to cope with problems of adjustment: relatively high unemployment and inflation, eroding domestic earnings and savings, and declining living standards for some Hungarians, especially pensioners, dependent mothers, and children. Hungary continues to experience serious trade imbalances, and it remains one of the highest per-capita indebted countries in Europe.

Economic Growth:

Economic Recovery: Hungary registered a modest (about 3%) GDP growth in 1995, the first year of growth since inception of the SEED program. It is estimated that GDP will continue to grow at about 2.3% in 1996. Central budget outlays have been reduced, and repeated efforts to contain the deficit within 4% of GDP offer good prospects for compliance with IMF conditionality and Hungary's ability to qualify for World Bank strategic adjustment lending in 1996.

SEED-funded U.S. Treasury advisors consult regularly within the Ministry of Finance (MOF), and earlier USAID assistance helped to establish, within the MOF, the Government's first post-war centralized treasury. This will enable the MOF to review allocations of credits to all Government departments, with a view to controlling expenditures.

USAID's pioneering work in introducing means-testing methodologies to publicly-owned housing in Szolnok is now being applied across Hungary. USAID advisors are also assisting local governments in managing their resources more effectively, by improving local capacity to finance both investment and the operation of municipal services. Assistance in municipal budgeting is provided to many Hungarian cities, enabling municipal governments to become more responsive and accountable to citizens. These and other facets of the housing assistance program are enabling local governments to work with the private sector more efficiently, without having to resort to new public ownership or necessarily resort to use of public funds. The existing stock of private housing is being improved through creation of new mechanisms to support homeowners as, for example, in managing condominiums and in helping homeowners to organize and to finance their own renovations.

The Housing Guaranty Program, signed in May 1994, provides U.S. guarantees in an initial tranche of $20 million to be spent on affordable loans for construction, rehabilitation, and infrastructure of modest homes. The goal of this project is to establish a model for more extensive market-based housing finance options for Hungarian consumers. The project supports reduction of central budget-funded housing finance subsidies, the removal of legal and regulatory impediments to developing a more competitive housing finance system, and integration of housing finance into the financial and capital markets.

Privatization: Hungary's second year of positive GDP growth reflects the growing contribution by the private sector to production and export enhancement. With 30% of Hungary's State-owned enterprises still to be privatized -- a process in which SEED funded advisors have played a major role -- it is estimated that the private sector now accounts for at least 60% of GDP. This includes virtually all of the retail industry. After facilitating privatization in 1995 of several major gas and oil conglomerates, USAID technical advisors recently assisted in the January 1996 privatization of VIDEOVOX and are completing preliminaries for privatizing the National Textbook Publishing Company, six electricity distribution companies, seven power plants, and part of the central electric works.

Small and Medium Enterprises: USAID has initiated two new projects aimed at conveying business management and marketing know-how to privatized firms. One is intended to help firms privatized under American-style ESOPS (employee stock ownership procedures) to acquire essential business management expertise. Another new effort will offer similar but more specialized, on-demand assistance to more established private firms on a part-reimbursable basis. Ten small energy service companies have been formed under a USAID energy management training project, and are now able to offer energy efficiency advice to Hungarian firms. Access to credit remains a major obstacle to Hungarian entrepreneurs, due in large part to the cautious lending policies of Hungarian credit institutions. In a project launched in 1995, USAID advisors began training senior managers of Hungary's national savings bank (OTP). Directed at high-level managers and OTP's own in-housing training unit, this project will enable OTP to expand new policies and skills so that loan officers in OTP's 1,400 branches will engage in "risk-taking" by lending to entrepreneurs on more commercially acceptable terms.

With assistance from another USAID partner, a major agro-business policy landmark --

Hungary's first Comprehensive Agricultural Bill -- is near conclusion. In June, 1995, a SEED-funded technical assistance team helped to draft this omnibus farm legislation -- the first of its kind in over fifty years. A delegation of senior Hungarian officials and parliamentarians came to Washington in November, 1995, to discuss the American farm bill experience with the Under-Secretary for Agriculture for Policy Formation, U.S. legislators, and staff. The delegation also visited farmers and consumer groups to obtain their insights into the operations of the U.S. farm legislation. A Hungarian agricultural joint venture, benefitting from USAID technical support, was reported to have imported an impressive $720,000 worth of U.S. soymeal and U.S. high technology software in 1995.

Next Steps: Budget reform remains a major task, entailing further restructuring and privatizing of the economy, including key sectors such as banking and energy. SEED-funded technical assistance has greatly facilitated the privatization process, and the Government of Hungary is showing growing receptivity to highly targeted U.S. advisory services to the banking sector. SEED assistance has helped to establish a central treasury within the Ministry of Finance. Next steps include a shift in emphasis from the privatization process to helping privatized companies become more competitive and commercially viable.

Fiscal reform will also entail further review of many major social service outlays -- especially unemployment, housing, and health -- which are too costly for the cash-strapped central government to finance much longer. Advisors will also explore mechanisms to transfer financial and programmatic responsibility from the heavily burdened central budget to local government, non-governmental organizations, and individual beneficiaries.

Democratization:

Local Government: Devolution of responsibility from central to local government has not been matched by a corresponding transfer of administrative experience and financial resources. The SEED program tries to address both issues: resource mobilization and effective representation of local interests and concerns. In 1995 twelve Hungarian mayors completed USAID training programs, studying how American practices can be applied to representation and employment generation in their respective cities. The Mayor of Pecs, Hungary's fifth largest city, subsequently established a tourism/business center (which may benefit from the stationing of U.S./NATO support personnel in nearby Kaposvar).

Participation: USAID launched two new programs in 1995, one aimed at upgrading public administration skills at local level and the other at supporting the establishment of local NGOs serving democratic reform and social service needs.

Next Steps: USAID efforts to promote participation in decision-making will focus increasingly on empowerment, through strengthening the capacities of local government and NGOs to articulate and represent the needs of the population.

Quality of Life/Social Sector Restructuring:

High unemployment (approaching 80% in some single-industry towns) continues to be the major preoccupation of the Government and a major impediment to economic reform. Costly redundancy within State-owned industries, such as the railways, has to be balanced against equally or even more costly unemployment benefits funded under the central budget.

Labor Retraining: Until World Bank, International Labor Organization and USAID/DOL advisors began their collaboration, Hungary had no mechanism for large-scale processing of redundant workers and assuring their re-employment. A model labor center was established in Baranya County with external donor assistance several years ago, but other more cost-effective measures have subsequently been explored.

One of these, the USAID-designed Rapid Response Project, is a pilot scheme which draws on existing local government counseling and training facilities to attract workers into alternative occupations. In Debrecen, one of the highest unemployment areas of Hungary, this project has helped to reduce unemployment by 1.5% in a fairly short period of time. Another USAID/DOL pilot project has also proven successful: the Quick Start project identifies local employers' needs and then provides appropriate training to match those needs. This project is credited with having so far put over 600 long-term unemployed back to work. Twelve additional sites have been activated to address mass layoff issues and to counsel an estimated 5,000 unemployed workers.

Health: A longstanding USAID Health Partnership with American and Hungarian medical institutions has established a center of excellence for treating children suffering from cancer. The introduction of new techniques and U.S. equipment has so far helped to reduce by over 50% the mortality rate of all child cancer patients under treatment in Hungary. As the result of SEED-funded training of Hungarian doctors and nurses in the U.S., it is estimated that 1,500 Hungarian patients have been able to receive modern cardiac care.

Next Steps: In its efforts to reduce charges against the central budget, in bringing Hungary into compliance with IMF conditions, health benefits will be cut substantially. USAID collaborators are helping to design a minimum health benefits package for the remaining national health insurance program. Other cost savings are expected to follow from USAID introduction of an improved hospital DRG system, to monitor health care costs more accurately.

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U.S. ASSISTANCE TO HUNGARY
TOTAL OBLIGATIONS
as of 30 September 1995
(US $000)

Obligation Amount
SAI/ESF/DA: $217,017

A. STRENGTHENING DEMOCRATIC INSTITUTIONS

Political Process and Governance		
1800003	Support of Democratic Institutions	1,782
1800017	Political Process	1,300
1800018	Local Government and Public Administration	715
1800019	Democratic Governance and Public Administration	2,943
1800020	Rule of Law	368
Democratic Pluralism		
1800021	Political and Social Process	2,163
1800022	Independent Media	2,467
	Subtotal:	$11,739
	as % of Total:	5.4%

B. ECONOMIC RESTRUCTURING

Macroeconomic Support		
1800036	Sector Support - Hungary	10,000
Privatization and Assistance to Enterprises		
1800014	Privatization and Enterprise Restructuring	25,411
1800023	Technical Assistance to Enterprises	9,071
Improving the Business Climate		
1800026	Competition Policy, Laws & Regulations	2,017
1800027	Business Services	7,709
1800035	Bank Training (Treasury)	2,148
Investment and Trade		
1800010	Enterprise Funds	70,000
1800028	American Business & Private Sector Dev. Initiative	6,279
1800047	Removing Impediments to Trade Enhancement (RITE)	97
Human Resources		
1800002	Human Resources Program	6,049
1800029	Management Training & Market Economics Education	10,856
1800045	Participant Training	2,975
Agriculture and Agribusiness		
1800024	Restructuring Agriculture and Agribusiness	7,898

Energy Efficiency

1800030	Regional Energy Efficiency	7,427
	Subtotal:	**$167,936**
	as % of Total:	**77.4%**

C. IMPROVING THE QUALITY OF LIFE

	Short-term Emergency & Humanitarian Aid	
1800032	Non Governmental Organizations (NGO) Dev. Project	3,470
	Employment and the Social Safety Net	
1800033	Labor Market Transition (DOL)	4,047
	Housing	
1800034	Housing Sector Assistance	8,735
	Health	
1800037	Partnerships in Health Care	4,961
1800038	Promotion of Private Health Markets	1,313
	Environment	
1800004	Environmental Initiatives	4,304
1800039	Improved Public Sector Environmental Services	6,688
1800041	Environmental Training	1,246
	Subtotal:	**$34,763**
	as % of Total:	**16.0%**

D. MISCELLANEOUS

1800249	Audit, Evaluation, and Project Support	1,281
180632A	Transfers To Other US Agiencies	1,275
9260071	Training Eval. & Support Services	4
9361421	AID/Peace Corps Small Project Asst	19
	Subtotal:	**$2,580**
	as % of Total:	**1.2%**

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Divider Title: **ESTONIA**

SEED ASSISTANCE SUMMARY

Program Overview

Like the country itself, the U.S. SEED Act assistance program in Estonia has undergone considerable change since its start in late FY 1991. The program quickly evolved from rapid-delivery humanitarian assistance (medicines and food) to providing long-term advisors and training in economic restructuring, democratic political processes, environmental clean-up, and social sector reform.

During the last five years, the Government of Estonia (GOE) has implemented a highly successful economic stabilization and restructuring strategy to promote the country's swift integration with Northern Europe and the European Union. The major factors contributing to Estonia's success include reform-minded political leadership, a liberal trade regime, responsible fiscal and monetary policies, timely privatization of small and medium-sized enterprises and land restitution, and legislation which invites investment and ownership of property by foreign companies. Democratic principles have taken root. The country has had a presidential succession, an elected legislature has been installed, prime ministers and cabinets have taken and left office democratically, and local elections have been held. While membership in formal political parties is small, the electorate is aware of political platforms, and there is a lively give-and-take in and out of parliament. Citizens increasingly participate in local government decision-making.

The United States considers Estonia's transformation to be firmly established. In accordance with a decision reached in FY 1994 between the GOE and the USG, USAID will close its office in Estonia at the end of FY 1996. Many SEED programs have already been concluded. Only a handful of activities will continue to operate in FY 1997 and beyond, mainly regional projects and those implemented by other USG agencies (especially USIA and the Department of State). It is expected that Estonia's political, economic and commercial relations with the United States will continue to grow.

SEED assistance has supported economic restructuring, democratic growth, and improved quality of life. In working towards these goals, the program managed by USAID:

* **encouraged the development of an appropriate legal and regulatory framework for market-based development**: drafting or improving basic commercial legislation; improving tax policy and administration, bank management and judicial training; and privatizing state enterprises of all sizes;

* **supported the growth of a free market economy:** providing loans, specialized business management assistance and training to new and newly-privatized firms;

* **strengthened local government**: increased public participation, improved budgeting and expenditure techniques; and

* **helped to improve the sustainability of social benefits and services**: improved environmental health conditions, public environmental policies and regulations, and medical care.

The USG contributed nearly $26 million in SEED funding to Estonia. Some $2.4 million of FY 1995 funds constituted the last increment of country-specific funding.

Program Impact

Economic Growth:

After steep declines in output in the early 1990s, Estonia's economy appears to be rebounding for the third straight year, with 5% growth forecast for 1996. Inflation has also been reduced from 42% in 1994 to 29% in 1995. This reflects both the price adjustments inherent in economic restructuring and Estonia's rapid wage increases. One measure of the economy's continuing shift to market prices is that administered prices rose 47% in 1995, while free prices rose just 22%. The GOE has also continued to recognize the importance of maintaining an internationally open economy. The full convertibility of Estonia's currency has encouraged a steady growth of foreign trade and provided a healthy climate for continued capital inflows. Reforms included privatization of public sector enterprises, financial sector strengthening, improved fiscal management, the creation of intellectual property rights legislation, stronger customs administration, and foreign investment laws to sustain Estonia's external orientation.

Privatization: In 1995, USAID-funded investment consultants concluded the KPMG Peat Marwick advisory program to the Estonian Privatization Agency, ending more than three years of such cooperation. Our assistance, working in concert with that provided by other donors, was critical in helping the GOE negotiate the sale of a large number of state-owned enterprises to foreign and domestic investors. The USAID-funded Public Administration program is assisting several major cities determine which municipally-owned enterprises should be privatized or eliminated.

By the end of 1995, the whole service and retail/wholesale sector and roughly 50% of the large state-owned industrial sector was privatized. In the last nine months of FY 1995, 124 enterprises with a value of $66.7 million were sold. Follow-on investments worth $63.8 million and employment for 14,163 people have been guaranteed by these sales contracts. The private sector now generates approximately 60% of GDP, a number which will rise as the largest remaining public sector enterprises are sold.

Private Sector Growth: In 1995, the Center for International Private Enterprise continued to promote small and medium enterprise (SME) development. It enabled the Estonian Small Business Association to create a "Voice of Business" in Estonia and advocate for legislation in the interests of SMEs. The recently-established Baltic-American Enterprise Fund has provided over $500,000 in loans to SMEs. With the Fund, private enterprises may now obtain credit at reasonable rates for business expansions. This addition has contributed to the growing sophistication and deepening of capital markets in Estonia. In addition, assistance by the U.S. Departments of Justice and Commerce and the Federal Trade Commission resulted in the development and enforcement of legislation and policies on the trade and investment issues involved in creating a market-oriented business climate. Related investment assistance included bankruptcy legislation.

While the contribution of any individual assistance activity to the overall growth of the private sector is difficult to establish, Estonia's progress is clear. There are now over 62,200 private businesses registered in Estonia, including almost 6,000 foreign-owned enterprises. Almost 2,000 public sector businesses, including many large industrial and infrastructure/service organizations, are still in the process of being privatized or liquidated.

Fiscal and Financial Reform: In 1995, U.S. Treasury assistance contributed to improvements in proposed tax legislation, established a national training capability in tax administration, advised on the restructuring of local tax offices, and created a "Principles of Management" manual to improve local tax office structure, management and examination procedures. SEED funding also provided support to improve the GOE's oversight capability by helping create a statistical monitoring system for analyzing enforcement activity effectiveness and recommending changes to improve tax collection procedures. Under another SEED Act activity, our cooperation helped establish an effective Customs Service, a crucial requirement for membership in the European Union, of which Estonia is now an associate member.

Working through U.S. Department of the Treasury banking advisors and several private contractors, USAID assistance was key to establishing prudential supervision rules in banking institutions and to strengthening commercial bank management. As a result, Estonia has since been able to avoid recent banking pitfalls encountered elsewhere. Local banks are increasingly respected as financially solid institutions, and the GOE has regularly taken measures to protect and enhance that reputation.

Democracy Building:

Political Process Building: The National Democratic Institute (NDI) and the International Republican Institute (IRI) have provided assistance to strengthen the organizational capability and enhance the effectiveness of political parties and civic organizations. The citizen participation projects at the local level have fostered permanency in democratic beliefs. For example, permanent procedures for public hearings have been institutionalized in some cities for community development planning and budgeting processes. Experience with citizen study committees provides city officials with a public management tool when developing public policy and long-range decision-making. NDI and local government officials have jointly developed, printed and widely distributed public participation pamphlets in eastern Estonia. IRI conducted two parliamentary workshops in 1995, attracting parliamentarians, staffers and representatives of the major political parties and several ministries.

Public Administration: Development Alternatives, Inc. experts worked with local government leaders in four key cities in 1995 to strengthen managerial capacity in budgeting and financial administration. As a result, budgets based on explicit objectives and performance criteria have been developed, thus improving the allocation of scarce resources. Economic development plans were modified to be more responsive to market forces, enabling competition for privatization of municipal assets.

Civil Society: Other means of building citizen participation through SEED assistance include activities to (1) enhance dialogue between ethnic Estonians and various communities of non-citizens, (2) improve professionalism of print and broadcast media, and (3) foster the growth of civil associations to influence public policy. In addition, using procedures developed with the U.S. Environmental Protection Agency, the first citizens' review of environmental impact assessments was completed and judged to be valuable by both residents and officials. Further, NDI has distributed a booklet on police and citizen interaction which has been well received by police officials.

Legal Systems: The American Bar Association's CEELI program has promoted legislation on constitutional reforms, civil and criminal codes and related areas, and the establishment of an Estonia Law Center to support the training of judges, lawyers, court administrators and law students in the development and consistent and equitable application of national laws. The Law Center has since attracted World Bank funding as well. U.S. Department of Justice attorneys have trained Estonians in combatting economic crimes, such as money laundering and criminal associations.

Quality of Life:

Environmental Health: SEED assistance is helping a chemical processing complex, one of Estonia's largest polluters, with a series of changes that reduce the plant's impact on the environment and enhance its financial, managerial, and technical viability. The plant will save about $1.5 million annually through electrical co-generation, while reducing energy demands from the nearby oil shale power station. The majority of the plant's most egregious toxins currently emitted to the Baltic Sea will be neutralized in revamped treatment systems or sold as specialty chemicals. The U.S. EPA is also strengthening the GOE Ministry of Environment with hands-on environmental impact and risk assessment training. These activities build on prior work by Harvard on environmental economic policies, such as water and other natural resource pricing and taxation.

Economically Sustainable and Environmentally Sound Energy Sector: Estonia has raised energy tariffs significantly, along with the prices of other public utilities, building on recommendations from USAID-financed regional energy pricing studies. Movement to full market prices will take a few years more. The privatization of energy utilities, starting in 1996, should speed price realignments. Environmental improvements in the energy area are coming more swiftly, with USAID and other donor assistance concentrating on relieving production inefficiencies in the oil shale mining and refining industries and on reducing pollution emissions in several industrial fields, including energy production. Efficiency in national and regional electrical production, transmission and distribution is being addressed in Estonia with the help of the U.S. Energy Association's exchange and seminar programs.

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U.S. ASSISTANCE TO ESTONIA
TOTAL OBLIGATIONS
as of 30 September 1995
(US $000)

Obligation Amount SAI/ESF/DA: $25,928

A. STRENGTHENING DEMOCRATIC INSTITUTIONS

	Political Process and Governance	
1800017	Political Process	193
1800018	Local Government and Public Administration	308
1800019	Democratic Governance and Public Administration	1,820
1800020	Rule of Law	585
	Democratic Pluralism	
1800021	Political and Social Process	438
1800022	Independent Media	163

Subtotal: $3,507
as % of Total: 13.5%

B. ECONOMIC RESTRUCTURING

	Privatization and Assistance to Enterprises	
1800014	Privatization and Enterprise Restructuring	3,850
1800023	Technical Assistance to Enterprises	2,022
	Improving the Business Climate	
1800026	Competition Policy, Laws & Regulations	814
1800027	Business Services	2,361
1800035	Bank Training (Treasury)	167
	Investment and Trade	
1800010	Enterprise Funds	3,473
1800028	American Business & Private Sector Dev. Initiative	49
	Human Resources	
1800002	Human Resources Program	432
1800029	Management Training & Market Economics Education	1,072
1800045	Participant Training	564
	Agriculture and Agribusiness	
1800024	Restructuring Agriculture and Agribusiness	790
	Energy Efficiency	
1800030	Regional Energy Efficiency	893

		Subtotal:	$16,488
		as % of Total:	63.6%

C. IMPROVING THE QUALITY OF LIFE

Short-term Emergency & Humanitarian Aid			
1800016	Humanitarian Emergency Medical Supply		170
1800032	Non Governmental Organizations (NGO) Dev. Project		66
Health			
1800037	Partnerships in Health Care		1,621
Environment			
1800004	Environmental Initiatives		1,310
1800039	Improved Public Sector Environmental Services		2,413
		Subtotal:	$5,581
		as % of Total:	21.5%

D. MISCELLANEOUS

1800249	Audit, Evaluation, and Project Support		252
180632A	Transfers To Other US Agiencies		100
		Subtotal:	$352
		as % of Total:	1.4%