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RESULTS REVIEW AND CLOSE-OUT PLAN

**USAID HUNGARY
1996-1999**

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A

LIST OF ACRONYMS

3M	3M Corporation
ABN/AMRO	large Dutch bank
ACDI	Agriculture Cooperative Development Initiative
AIHA	American International Health Alliance
APEH	Hungarian Tax Office
BSE	Budapest Stock Exchange
BUES	Budapest University of Economic Sciences
CENTREL	East European Electricity Grid
CIJ	Center for Independent Journalism
CIPE	Center for International Private Enterprise
CLC	county labor center
CLGA	Council of Local Government Associations
CY	calendar year
DHHR	United States Department of Health and Human Resources
DNH	Democracy Networks Hungary
DOL	United States Department of Labor
DRG	drug related groups
DSM	demand side management
EBRD	European Bank for Reconstruction and Development
EE	Eastern European Real Property Foundation
EERPF	Eastern European Real Property Foundation
EMED	Entrepreneurial Management and Executive Development
EU	European Union
EXIM	Export Import (bank)
FSVC	Financial Services Volunteer Corps
FY	fiscal year
G/EG/CI	USAID Global Bureau office
GDP	gross domestic product
GEF	Global Environmental Fund
GOH	Government of Hungary
HAEF	Hungarian American Enterprise Fund
HCB	Hungarian Credit Bank
HEO	Hungarian Energy Office
HIID	Harvard Institute for International Development
HIS	Health Information Services
IBRD	International Bank for Reconstruction and Development (World Bank)
ICMA	International City Management Association
IMF	International Monetary Fund
IR	Intermediate Result
IREX	International Research and Exchange Board
JCA	Joint Commission on Accreditation

KPMG	Barents
LEA	local enterprise agency
LED	local economic development
LPG	loan portfolio guarantee
MBA	Master of Business Administration
MBA Corps	Group of MBAs
MERP	Ministry of Environmental and Regional Development
MOF	Ministry of Finance
MTV2	Hungarian Television Channel 2
MVM	Hungarian Electricity Works
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
NREA	National Real Estate Association
OECD	Organization for Economic Cooperation and Development
OTP Bank	Hungarian Savings Bank
PAYG	pay-as-you-go
RAC	re-employment assistance committee
RONCO	RONCO Consulting Corporation
RR	Rapid Response
SME	small and medium enterprises
SO	strategic objective
SOT	strategic objective team
SUNY	State University of New York
TQM	total quality management
TUB	Technical University of Budapest
UCPTE	European electricity grid
USEA	United States Energy Administration
USIA	United States Information Agency
USIS	United States Information Services
UST	United States Department of Treasury
UWI	United Way International
VAT	value added tax
VOCA	Volunteers in Overseas Cooperative Service

PART I: OVERVIEW AND FACTORS AFFECTING PROGRAM PERFORMANCE

Hungary has largely succeeded in achieving its goal of replacing the former communist system with a free, open and representative political system and a private market economy. Indeed, all of the basic structures of a functioning democracy are well established. Elections are free and power transitions are peaceful; government branches exercise checks and balances on each other; the Judicial Branch is independent and the press is free. Uniformed police and military are under clear civilian control. Hungary's economy is now private with over 70 percent of GDP generated by the private sector, including formerly sensitive sectors such as energy, telecommunications and publishing. In 1996, Hungary became a full member of the Organization for Economic Cooperation and Development (OECD). Standard and Poor's, Moody's and four other credit rating agencies now recognize Hungary's economic progress with "investment" grade ratings.

As Hungary's progress continues and transition objectives are achieved, USAID's program has become more focused on those areas which remain critical to Hungary's achieving sustained high economic growth. Fiscal reform and good demand management remain key if Hungary's persistently high inflation rate is to be brought under control and Hungary prepares to bear the costs of entry into key Western institutions such as the European Union and NATO. Over the past year, Hungary's progress was excellent with good debt management, improved tax administration and key cost measures helping the Government achieve a reduced deficit equivalent to 3.3% of GDP. Performance in the financial sector remains mixed. The five year old Budapest Stock Exchange turned in an outstanding performance both in terms of value and volume in 1996. Bank privatization moved forward, albeit haltingly. However, the integrity of the financial sector remains blurred by the recent failure of the State Banking Supervision Authority to anticipate a run on one of Hungary's largest banks.

After seven years of Government neglect and some policies that were counterproductive, Hungary's Small and Medium Enterprise sector is beginning to turn in positive performance as well. After tax profits hit an impressive 6.8 percent. Small businesses in Hungary seem to have found a niche where they can prosper as their growth continues. However, medium enterprises are not showing consistent performance due to confusing government regulations and a lack of venture capital.

Hungary's aggressive attempt to reform its energy sector through whole-scale privatization suffered a temporary set-back during the past year as the Government intervened to postpone electricity price increases proposed by the independent regulatory agency, the Hungarian Energy Office. Recognizing the dampening effect the move had on private investors, the Government of Hungary has approved increases in 1997. If appropriate pricing policy is permitted and Hungary's competition strategy is developed, we expect to see the Energy Strategic Objective graduating as planned in 1997.

With the progress Hungary has achieved over the last year, we believe that USAID/Hungary is in a position to plan for close-out. We are now predicting that, by 1999, Hungary will have sustained real GDP growth on the order of 4-5% a year. Inflation will drop to single digits and unemployment levels will be at or below Western Europe's average. Accordingly, we see FY 1999 as USAID/Hungary's final year of implementation.

Our program close-out strategy will focus on:

- Continued assistance to help Hungary achieve the absolutely critical objective of fiscal budget soundness, working on tax compliance, pension reform and establishing a basis for health reform;
- Final support for making Hungary's financial markets transparent and fluid;
- Support for addressing the Small and Medium Enterprise sector's key constraints of government policy development and information management and access to financial resources;
- Strengthening Hungarian's abilities at self-help and informing public debate through support to Hungary's local government initiative and fledgling non-governmental movement;

While Hungary has successfully established the major institutions and structures of a democracy and an open, market-oriented economy, the country's transition will remain fragile over the next few years. Hungary will continue to grapple with serious issues of reductions in the social safety-net, particularly in the areas of health, if the country's fiscal reform is to remain on track. The country must continue to work towards bringing Hungary's new democracy to the local level, encouraging individual and local initiative and informed public debate. Non-governmental organizations and small and medium enterprises must enjoy a policy and enabling environment which allows them to survive independently. And very importantly, Hungarians must work toward making their institutions of arbitration -- tax administration, banking and utility regulatory agencies -- truly competent and free of political intervention.

PART II: PROGRESS TOWARDS OBJECTIVES

INCREASED SOUNDNESS OF FISCAL POLICY AND FISCAL MANAGEMENT PRACTICES

1. Performance Analysis

In 1996, impressive progress was made towards increased soundness of fiscal policies and fiscal management practices. Improved control over expenditures and employment resulted in significant progress towards a satisfactory consolidated central government budget balance, reducing the deficit from 6.5% of GDP in 1995 to 3.3% in 1996. This result significantly exceeded our 1996 SO target of 3.9%.

The Government of Hungary (GOH) performed well in its push to implement sound budget management practices. Government employment levels, with a *de facto* freeze on new hiring except in the tax office, declined. Another factor contributing to the country's good performance was superior management of its foreign debt. Net foreign debt declined from 38% to around 29% of GDP. Satisfactory fiscal performance and other demand management successes resulted in reducing the country's balance of payments current account deficit from 5.7% of GDP in 1995 to 3.9% in 1996.

PERFORMANCE OF KEY INTERMEDIATE RESULTS

More Efficient Budget and Program Management

Indicator results exceeded targets for this IR. GOH performance in reducing the fiscal deficit was very satisfactory. With USAID/Hungary technical assistance, the GOH Treasury Office streamlined budget flows to ministries according to need, reducing overall funding and borrowing requirements. As a result, the core central government budget deficit was 56% less than planned, amounting to less than 2% of GDP. Although results related to restructuring the health care system from high cost acute care to preventive, ambulatory, home health care and nursing homes did not meet targets in 1996, progress was made on implementing diagnostic related group (DRG) reimbursement procedures throughout the Hungarian hospital system. Health reimbursement paid for inpatient services as a percentage of reimbursement for outpatient services was 48.7% compared to our target of 48.0%. Targets for reducing excess bed capacity in hospitals were exceeded. Prospects are good that USAID's ongoing activities, together with a World Bank financed GOH program for restructuring the health care system within the scope of broad public finance reform, will facilitate sustainable progress in health care delivery systems and financing during 1998 -1999 and after.

Improved Revenue Generation

Most indicator results for this IR exceeded targets. Tax audits exceeded target by 111,000; tax compliance measured by the number of tax returns filed exceeded target by 2 million; and non-tax revenues are estimated to have amounted to the targeted 0.8% of consolidated central government revenues. Taxes on profits and income, at an estimated 22.2% of core central government revenues, were slightly below the targeted 25%. USAID/Hungary assistance to the GOH tax office resulted in progress in 1996 on developing ways to incorporate increased numbers of gray economy businesses into the formal economy. Notwithstanding progress to date on improved tax administration, much remains to be done. The most pressing problem is how to facilitate near term training of tax auditors to improve their ability to cope with the complexity of modern businesses, especially large corporations, banks, multilaterals and insurance companies. This is a critical area that would yield substantial returns from funding that could be made available from a successful restructuring of program resources.

USAID/Hungary's environmental economics activity complements other fiscal SO activities developed to achieve improved revenue generation by means of an improved tax system and an improved non-tax revenue base. In this context, the activity supports sound justification and rationale for tax and expenditure policy recommendations dealing with incentives to influence business practices that affect interrelated aspects of the environment, people's health and quality of life and productivity. The GOH made good use of technical assistance in this area during 1995 and 1996. Product charge legislation covering packaging, tires, batteries and other products was approved by Parliament in June, 1995, and formal charges were assessed and collected beginning in September, 1995. Implementing regulations related to collection and disbursement of product charges were initiated by the Ministry of Environment and Regional Development (MERP) in 1995, and are ongoing. Environmental taxes are now a defined component of the GOH tax reform agenda. MERP and the State Property Agency now use procedures designed with USAID/Hungary assistance for integrating environmental audits into the privatization process.

Rationalization of Government Role

This IR is defined by the emphasis of its targets: reducing government subsidy payments; reducing consolidated central government expenditures (including spending by the two social security funds and extra-budgetary institutions); and comprehensive pension reform. Although good progress was made in 1996 on reducing central government spending, spending by the social security funds substantially exceeded planned amounts. Accordingly, we estimate that consolidated central government expenditures may have been some 53% of GDP compared to a target of 49%. Subsidies as a percentage of consolidated central government expenditure amounted to 10.2%, compared to a target of 9.5%.

The GOH recognizes that the reforms implemented in the central budget area are endangered by continued large deficit problems in the social security funds (health and pension). In 1996, the self-governing health and pension funds incurred deficits equivalent to 1.1% of GDP, up from 0.7% of GDP in 1995. There will continue to be significant deficits in the pension fund after comprehensive pension reform is enacted. These deficits may persist for several years. Progress on improving the financial integrity of the health fund is now occurring, but will not be significant until after 1999. Accordingly, meeting targets for deficit reduction must continue to rely on improved controls on expenditures in all budget areas.

The main preparatory work for tax-protected pension options complimenting the PAYG system was completed with USAID/Hungary assistance during 1996. Draft legislation is expected to be presented to Parliament in the Spring of 1997. USAID/Hungary provided assistance to an inter-ministerial working group to develop a framework for pension reform legislation expected to be presented to Parliament this year. Because pension reform legislation was not presented to Parliament in accordance with the GOH's original time frame (December, 1996), we consider the framework benchmark only 50% achieved. USAID/Hungary assistance aided the GOH in improving the legal and budget implementation framework for public sector finance in several areas (including the new health care financing law) which allowed the GOH to initiate measures in 1996 that controlled GOH expenditure practices.

2. Expected Progress Through Close-out

A. Realistic Prospects for Achieving Objectives by Close-out.

Prospects for achieving the SO by the end of FY 1999 are excellent provided that the GOH maintains the political will and commitment to continue recent progress on efficient budget and program management and rationalization of the role of government.

We have targeted a consolidated central government balance for CY 1999 of on the order of -2.3% of GDP. Given the GOH commitment to fiscal balance and performance to date, this is a reasonable target, despite the likelihood that successful pension reform will result in an increased deficit in the pension accounts due to increased costs during the early years of reform. However, more important is GOH commitment to a budget balance that is sustainable without doing damage to long-term stabilization objectives that include single digit inflation and a sustainable current account deficit in the balance of payments financed by direct foreign investment and other private capital inflows. In this context, a sustainable fiscal balance above -3.0% of GDP is achievable and adequate.

Consolidated central government expenditure on the order of 45% of GDP has been targeted for CY 1999. The target of 49% for 1996 was not met. Preliminary estimates of consolidated central government spending in 1996, including extra-budgetary spending and spending by the pension and health social security funds, are close to 53% of GDP. Our preliminary estimates of 1996 GDP growth (nominal) may turn out to be

underestimated and total spending slightly overestimated. It is unlikely, however, that the corresponding actuals, when known, will differ enough from our estimates to show that the target for 1996 was met. The target for CY 1999 is 45.0% of GDP. We believe that the GOH will eventually achieve this target, but, though reasonable and possible, not necessarily by CY 1999. For a variety of reasons, the need to continue progress on restructuring and reducing external debt balances, the need to reduce the country's tax burden to improve tax equity and provide increased incentives for entrepreneurship, it is important to reduce consolidated central government spending to a level less than 50% of GDP. A reduction of typical consolidated central government expenditure to less than 50% of GDP is a necessary certification that our fiscal objective has been achieved.

Sustained tax enforcement and good compliance are necessary conditions for achieving the objective. Numbers of tax returns and tax audits exceeded our targets in 1996, and are expected to continue at fairly high levels. Good tax compliance, however, depends on motivation and perceptions that the tax system is fair and that every one generally adheres to the requirements of the system. In this context, the quality of tax enforcement is more important than the number of audits, as such. U.S. Treasury advisors provide critical technical assistance to the Hungarian tax office in key areas of tax administration to improve compliance. In addition to this assistance, significant training is required for key tax office personnel. The GOH provides some training, but training remains inadequate. USAID/Hungary is considering how to restructure planned programming to provide necessary training in key areas such as audit. We expect satisfactory performance in these areas by mid-1999, provided that the number of audits consistently remains at or above 400,000.

The GOH is committed to reducing subsidies that heretofore have been significant drains on the central government budget. Although progress was made on reducing some subsidy payments in 1996, significant production subsidies continue, particularly in agriculture. A number of consumer price subsidies and housing grants are proving difficult to reduce. Nevertheless, our target of reducing subsidy payments to around 6% of central government expenditure by 1999 appears to be roughly on target. We will consider our objectives in this area to be achieved if the underlying trend in 1999 permits a near-term extrapolation that there will be sustainable reductions in subsidy payments to less than 6% of core central government expenditure during the early years of the decade beginning in 2001.

The ability to accurately plan prospective revenues and expenditures is critically important to achievement of the fiscal objective. Ministry of Finance capabilities have improved substantially since a new Treasury Department was created to manage budget implementation. We have targeted a 6% (nominal) difference in actual and planned deficits. This is realistic once inflation levels are reliably single digit, and the revenue base has stabilized. Accordingly, we will consider this objective achieved if, in 1999, there are expectations that differences in planned and achieved deficits are not large and are reasonably stable. The 6% target is a good benchmark.

INDICATORS OF SOUND FISCAL POLICY AND FISCAL MANAGEMENT PRACTICES					
INDICATOR	BASELINE	1996 TARGET	1996 ACTUAL	1999 TARGET	1999 ACCEPTABLE
consolidated central government balance (% GDP)	-7.8 (1993)	-3.9	-3.3	-2.3	Sustainably above -3.0
consolidated central government expenditure (% GDP)	54.2 (1991)	49.0	53.0	45.0	Sustainably <50.0
tax audits (thousands)	296 (1993)	325	436	400	consistently >400
subsidy payments (% central government expenditure)	10.9 (1995)	9.5	10.2	6.0	trend <6.0
difference in actual and planned deficit (% planned)	182.5 (1992)	10.0	-56.0	6.0	trend <6.0
comprehensive pension reform	no framework (1995)	framework legislation submitted to Parliament	50%	modern system in place	modern system in place

B. Managerial and Resource Adjustments to Reinforce Prospects for Success.

USAID/Hungary collaborates with GOH and World Bank personnel in its activities related to modernization and restructuring of the health care system. Specifically, we seek to increase financing efficiency through lower costs while reducing access problems and improving the quality of care provided. A major focus is universal adoption of diagnostic related groups (DRG) procedures. The GOH has only recently begun to seriously focus on the restructuring requirements of health sector modernization, but dramatic advances may not occur until after the May, 1998 national elections.

Although basic framework and enabling legislation options for comprehensive pension reform have been prepared with World Bank and USAID/Hungary assistance, necessary GOH inter-ministerial agreement on a number of technical issues has not been rapid. This has delayed submission of draft legislation to Parliament. In the event of near term passage of draft legislation, substantial design work for public education programs, in addition to significant technical assistance for pension fund supervision and pension guarantees, must proceed rapidly. USAID/Hungary expects to assist the GOH in addressing these issues through re-focusing existing resources.

Personnel requirements for the management of activities under this SO are:

<i>Fiscal Year</i>	<i>Person Months</i>
1996 reference	16
1997	18
1998	15
1999	12

C. Brief Schedule for Termination of Principal Activities.

<i>Activity</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
0004.11 Environmental Economics -HIID	9/97		
0021.01 Education Modernization -USIA	9/97		
0023 Pension Reform - CIPE			3/99
0027.02 Short-term TA Fiscal Reform - FSVC			3/99
0038 Rational Drug Use			6/99
0014 Pension Fund Supervision -UST			6/99
0027.01 Tax Administration -UST		9/98	
0038 Health Care Protocol Guidelines-DHHR			6/99
0038 Hospital Accreditation-JCA			6/99
0038 Outpatient Care-SOLON			6/99

D. Recommendations to Continue Selected Activities after Close-out.

It is expected that all Fiscal SO activities will be completed before September, 1999.

E. Sustainability After Close-out

Institutional capacity strengthening at the GOH Ministry of Finance, Hungarian Tax Office (APEH) and pension fund supervision will assure that reforms in fiscal policies and fiscal management practices are sustained. In addition, the World Bank's longer term commitment to assist comprehensive restructuring of Hungary's public sector will continue to provide important support.

IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES

1. Performance Analysis

Progress in 1996 towards achievement of this SO was satisfactory for most IRs. The Hungarian SME sector continued to demonstrate an ability to adapt to constraints and a changing environment and grow. As reported in a USAID/Hungary sponsored survey, SMEs increased sales in 1995 by 6.9% after adjusting for inflation. After tax profits as a percentage of sales increased to an impressive 6.8%, compared to 4.4% in 1993. The 1996 survey, scheduled to be repeated each year through close-out, established baseline values for a large number of indicators to serve as management tools and track sector results.

Although the overall sector is clearly strengthening, several concerns remain to be addressed before long-term viability of the sector is assured. A persistent impediment is a frequently changing regulatory environment. In fact, an independent survey of SMEs found the unpredictability of government legislation to be one of the greatest barriers to sector growth. SMEs must contend with frequently changing regulations that divert resources from growing their businesses to activities that satisfy extensive regulatory and reporting requirements and finding ways to reduce high tax burdens.

Since 1992, the small and medium enterprise sector has substantially outperformed the economy as a whole. Growth in value added in the SME sector averaged over 10% a year, whereas the economy as a whole grew just 1.3% a year. Dramatic growth in value added in 1993 and 1994 on the order of 16-17% a year turned negative in 1995 (-2%). The steepest declines appear to have been experienced by medium sized firms, where growth exceeding 25% a year in 1993-1994 was zero or slightly negative in 1995. Some recovery is now occurring. Many small enterprises have clearly found a niche where they can prosper. However, problems in the enabling environment, markets and companies constrain the transition from small- to medium-size enterprises. Under-capitalization is a big problem for all SMEs. This problem has been partly addressed by USAID's Hungarian-American Enterprise Fund (HAEF), which has demonstrated the viability of venture capital funding of medium-sized Hungarian companies. Notwithstanding HAEF's success, there are few venture capital investors in Hungary.

USAID/Hungary will track the performance of the medium enterprise sector as measured by its contribution to enterprise sector GDP. Increased medium-size enterprise contributions to sector value added will indicate maturation of the SME sector. As the enabling environment becomes more favorable and firms mature, the size distribution of companies in the sector will more closely resemble that of the European Union. In 1996, these comparisons were:

	<u>Hungary (%)</u>	<u>EU (%)</u>
Micro enterprises	97	93
Small enterprises	2	6
Medium enterprises	1	1
Total	100	100

A foundation for improvement in the enabling environment for SMEs was laid when in 1996 the GOH publicly recognized the importance of the SME sector as an engine of transition. The GOH is now focusing on the specific problems SMEs must cope with. An SME department has been established in the Ministry of Finance (MOF) and an enterprise development council created to facilitate the exchange of information between government ministries and SME interest groups. In response to the need for more refined information about the SME sector, the GOH supports a specialized research institute to provide sector statistics and analysis. USAID/Hungary assists this Institute in the distribution of research results to interested stakeholders in Hungary and to the international donor community.

It is expected that recent improvements in GOH fiscal integrity and resulting lower inflation and interest rates will have favorable impacts on SMEs. However, it is unclear how positive trends towards stabilization of macroeconomic financial structures will balance out against the unexpectedly slow progress in areas such as decreasing payroll contributions for successful achievement of this SO. In response to the GOH interest in SMEs, USAID/Hungary is collaborating with the GOH and expects to provide input to an MOF draft of its proposed SME development program.

PERFORMANCE OF KEY INTERMEDIATE RESULTS

Increased Access to Commercial Banking Services

Progress on achieving this IR in 1996 was not fully satisfactory. Overall lending to SMEs decreased even as SME bank deposits increased. By creating liquidity in the system, increased deposits should have generated more loans. There is currently no organization in Hungary dedicated to tracking loans to the SME sector in detail.

The contraction in SME credit is attributable to a strong austerity program initiated by the GOH and the Central Bank in the Spring of 1995 and to recent trends in the banking sector. The environment for SMEs *vis a vis* the banking sector is very competitive. Although non-Hungarian banks are active in Hungary, Hungarian banks are still restructuring extensive portfolios of bad debts and are increasingly cautious about lending to SMEs. Many have experienced problems with loans to the sector in recent years, largely because of uneven capabilities to assess or manage risk and credit. Banks in Hungary typically require, on average, collateral of 150 percent. This constraint is typically cited by SMEs as the major impediment to obtaining a loan. Many banks are also averse to lending small amounts, so micro and small enterprises are constrained by the modesty of their needs.

In order to encourage SME lending through joint risk sharing, USAID provided a \$6 million loan portfolio guarantee program to a principal partner, OTP Bank, the largest in Hungary. Another important achievement of USAID/Hungary's assistance in 1996 was the establishment at the same bank of a risk analysis unit to gather and analyze data on its portfolio. This bank can now closely track and manage its loan portfolio. This is expected to result in near-term increased lending to SMEs. In order to better correlate with the bank's objective of increasing the quality of loans (as opposed to number of loans), we have changed the indicator tracking this activity to "Amount of SME loans extended by the OTP Bank." Groundbreaking institution building has also been carried out with a smaller bank in USAID/Hungary's Northeast pilot region. Through USAID/Hungary assistance, loan management software was developed and introduced to allow small banks to efficiently track the performance of their portfolios.

The GOH is also concerned about SME access to credit. Despite mission misgivings, the GOH has initiated programs of subsidized credit to SMEs. These subsidies are significant and amount, on average, to about 25% of the Hungarian interbank loan rate, currently around 21%. Such GOH subsidy programs are clearly desirable to SMEs, and the banking partner through which USAID/Hungary's guarantee program is channeled has indicated a preference to facilitate customer access to the GOH subsidy program rather than utilize the USAID Loan Portfolio Guarantee program. USAID/Hungary requirements that the bank track the source and origin of components that make up financed equipment, even if assembled in Hungary, is a further deterrent to using the guarantee facility.

In addition to working with banking institutions, USAID/Hungary's approach to increasing access to credit involves working with our customers, the SMEs themselves. Activities include the development of improved presentations to banks of financial information. An outstanding example of the success of this two-pronged approach is the over 500 percent increase in credit obtained during the 3-year agribusiness training program by the 67 companies involved.

Improved Access to Market and Technology Information

The thrust of USAID/Hungary activities for this IR, all initiated in 1996, is to improve information access by SMEs through: (1) establishing Internet linked data-bases of information in regional locations for agricultural SME producers and businesses; (2) making Internet available to SMEs through county local enterprise agencies (LEAs); and (3) making Hungarian business cases and other resource materials available through "virtual libraries" at universities and other educational centers.

While all activities are on track, the USAID/Hungary activity involving training of LEAs is the first to produce tangible results. USAID/Hungary support to establish Internet linkages in LEA's has been in collaboration with EU PHARE, which financed the necessary equipment. All major county LEA offices are now hooked into the Internet and communicate with each other via e-mail and file transfer protocols. This linkage

provides efficient access to information for client SMEs seeking to enhance their competitiveness and market responsiveness. Several of the more technically sophisticated LEAs and a USAID/Hungary supported small business development center have developed fee-for-use services for Internet access that are expected to contribute both to their financial sustainability and to the improved performance of client SMEs.

Improved Business Systems and Practices Developed and in Place

Progress on achievement of this IR has been satisfactory. In late 1996 baseline data were collected on indicators focused on business systems such as marketing, accounting and planning. The Mission is refining its questionnaires to capture more precise information on how these systems are actually used to improve performance. Data will be collected both on a sector basis and from clients assisted by USAID/Hungary partners.

USAID/Hungary activities support improved systems and practices, a basic prerequisite for long-term growth of SMEs, through training, developing associations, strengthening local consulting organizations, and working with the national education system. Agribusinesses assisted by Land O' Lakes show many improvements in marketing as demonstrated by impressive increases in sales and market share. Increases in sales after program participation ranged from 14 to 500 percent. The sustainability and spread of these improvements will be assured through the use of special training materials placed in agricultural vocational schools throughout Hungary. Many of the companies participating in these programs have elected to continue to network. This is a positive sign of likely long-term impact.

Association strengthening is a major component of many of our activities. For example, the National Real Estate Association of Hungary (NREA), after participating in USAID/Hungary supported activities with the Eastern European Real Property Foundation (EERPF), now acts as an independent entity and recently signed a bilateral cooperative agreement with its U.S. counterpart, the National Association of Realtors USA. The USAID/Hungary supported ACDI/VOCA activity, which works via rural farmer associations to increase participation as agricultural integration projects are established, has been very successful. Integrations are designed to coordinate activities to improve efficiency in marketing, purchase of inputs, storage and machinery servicing.

The pool of trained business professionals must continue to increase for improved business systems and practices to be developed and put in place. The institutionalization of business and management education is being successfully accomplished through two USAID/Hungary-sponsored activities implemented by U.S. universities, SUNY and Indiana, in collaboration with their Hungarian partners, the Technical University of Budapest (TUB) and the Budapest University of Economic Sciences (BUES). SUNY has helped establish Total Quality Management (TQM) centers at seven universities across Hungary. These centers focus on how to produce high quality products while providing excellent customer service. The number of students enrolling in TQM courses consequently exceeds targets. Cumulative attendance since the onset of these programs is

7,885 students. SUNY also assisted TUB in setting up the first MBA program in Hungary specifically designed for engineers. A key component of this MBA program is coursework in TQM.

Indiana University and the Budapest University of Economic Sciences have organized programs focused specifically on the needs of women. These programs were designed with input from conference participants, and has been followed up by continued networking through the University's Women's Studies Center.

More Rational Tax Structure for SMEs

Progress on this intermediate result has been limited. Corporate tax rates have been reduced from 36% to 18%, and the top rate of the personal income tax has been reduced from 48% to 42%. However, payroll taxes remain onerous, severely limiting the addition of new employees to SME payrolls.

A proxy indicator, "Decreasing Size of the Informal Sector", is being used for determining achievement of a more rational tax structure for SMEs. As tax burdens (combined VAT, payroll, income tax) for SMEs decrease, coupled with improved, equitable enforcement, companies will be motivated to increase compliance. Targets for 1997 reflect an increase in the size of the informal sector due to ambiguous changes in payroll contributions introduced in 1997 that may increase contributions for many SMEs. By 1998 or 1999, however, the informal sector should be declining. Progress on this IR depends heavily on the success of the Mission SO: Increased Soundness of Fiscal Policies and Fiscal Management Practices.

2. Expected Progress Through Close-out

A. Realistic Prospects for Achieving Objective by Close-out.

The transition from small to medium-size enterprises is very important for Hungary to be able to increase its adoption of modern technology and increase its competitiveness in world markets. Medium-size enterprises are generally better able to improve productivity, thereby allowing higher standards of living. It is important that income growth accelerate in Hungary in order to reduce the large gaps in Hungarian and Western European counterparts. By 1999, we expect value added of medium-size enterprises to be on the order of 20% of enterprise sector value added, with good prospects for continued growth during the first decade of the 21st century.

We expect SME sector access to market and management information services to be significantly improved and the productive use of these information resources will be consistently increasing. Increased information about the sector will be significant, and used by government financial institutions, donors and others that make decisions about the sector.

By 1999, it is expected that Hungary's gray or informal economy, now estimated to account for as much as one-third of all economic activity, will be declining as more and more enterprises become formally incorporated in the formal economy.

SME sector businesses have tremendous potential to be exporters. Export business is necessary for rapid, sustained growth of the sector. In 1995, USAID/Hungary surveys indicated that exports accounted for only 8.2% of sales. This is a serious marketing problem, and is a prominent reason for Hungary's poor economic growth performance in recent years. We have targeted exports at 15% of sales in 1999. This target is feasible. However, we will consider the objective achieved if, in 1999, export participation in sector sales is rising and there are strong indications of continued, sustained increases.

SME profits have steadily improved in recent years, but not rapidly. We expect after tax profits to reach around 8% of sales by 1999, with good prospects for continued steady growth.

Underpinning the ability to export, improve profits and productivity and employ more people at good wages is access to credit. We expect to see evidence by 1999 that barriers to access to credit are being reduced. By 1999, around one-third of all SMEs are expected to have received one or more bank loans.

IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES					
INDICATOR	BASELINE	1996 TARGET	1996 ACTUAL	1999 TARGET	1999 ACCEPTABLE
medium sized enterprise % contribution to enterprise sector value added	18.1% (1994)		18.2% (1995)	20%	consistently rising
SME sector information		risk analysis unit established in largest bank; AID-sponsored survey provides sector data	risk analysis unit established in largest bank; AID-sponsored survey provides sector data	data on SMEs collected by autonomous Hungarian institutions on regular basis	information gathering on SMEs consistently increasing at partner institutions
Difference between unreported (actual) and reported contribution of SME subsector to enterprise value added	11.8 percentage points (1994)		12.8 percentage points (1995)	10	consistently declining
Exports as % of sales by SMEs	8.2 (1995)	> 9	NA	> 15	Consistently rising
SME profits (after taxes) as % of sales	4.4 (1993)	> 7.1	6.8 (1995)	> 8.0	Consistently rising
% of SMEs to have received a bank loan	27 (1996)	NA	27	> 33	Consistently rising

B. Managerial and Resource Adjustments to Reinforce Prospects for Success.

We plan to adjust resources by decreasing amounts programmed for achieving the result of improved systems and practices in place and using these resources to achieve a more rational tax structure for SMEs. We will only fund the *Enterprise Restructuring Activity* for one year since proposed FY 1997-1998 and 1998 funding availabilities are not adequate to continue this activity and also fund critical activities designed to achieve an improved enabling policy environment. A major partner charged with improving policies is the Center for International Private Enterprise (CIPE). FY 1997 resources are being provided to this important partner so that these activities can continue through early FY 1999.

Personnel requirements for the management of activities under this SO are:

<i>Fiscal Year</i>	<i>Person Months</i>
1996 reference	27
1997	31
1998	24
1999	19

C. Brief Schedule for Termination of Principal Activities.

<i>Activity</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
0023.07 Business Development Grants -Peace Corps	6/97		
0023.05 Assistance to Private Enterprises -MBA Corps	9/97		
0014 SME Management Services -RONCO		3/98	
0023.11 U.S.-based SME short-term Training -EMED		6/98	
0023.03 Private Enterprise Development -CIPE		9/98	
0014 ESOPs Assistance -Share Participation			3/99
XXXX SME Information Dissemination			6/99
0014 Small Business Loans (OTP LPG)-KPMG			6/99
0024 Regional Access to Info. & Credit -ACDI/VOCA			6/99
0029.01 Total Quality Management Centers -SUNY			6/99
0029.01 Mgmt. Training & Econ. Educ. -Indiana University			6/99
0034 Housing Sector Assistance -EE Real Property			6/99
0034 Housing Sector Assistance -Urban Institute			6/99

D. Recommendations to Continue Selected Activities after Close-out.

If utilized, OTP Bank will continue to have access to USAID/Washington's loan portfolio guarantee until 2001. This will be monitored by G/EG/CI in Washington.

E. Sustainability After Close-out

The institutionalization of business and management education through the establishment of Total Quality Management (TQM) centers at universities and an increased number of institutions offering MBA programs in Hungary underpins the human resources element of sustainability. The enhanced ability of the Institute for Small Business Development to meet needs for more refined information and analysis of the SME sector provides a focus on government policies as they impact on the sector.

Other donors include EU-PHARE, EBRD and the Japanese EXIM Bank. These donors currently provide the bulk of SME credit resources that are expected to remain available after close-out. Once Hungary becomes a member of the EU, there will be additional resources, incentives and markets for SMEs.

GOH plans for helping small and micro businesses include publishing a directory of available programs and streamlining applications for assistance.

A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR

1. Performance Analysis

Overall progress towards achieving this SO has been satisfactory. The key critical assumption called for successful economic reforms to lay the ground work for sustainable economic growth. In 1996, forward progress in this area, as reported under the strategic objective "Increases Soundness of Fiscal Policy and Fiscal Management Practices," was excellent.

In 1996, the financial sector's development advanced very well despite a very tight monetary policy pursued by the Central Bank. The most spectacularly performing segment was the Budapest Stock Exchange (BSE). The stock exchange index rose 163% to 4,100. Trade volume on the exchange in 1996 exceeded the cumulative volume of the previous five years. Factors which helped create a positive market environment and increased demand for Hungarian stocks were Hungary's entry into the OECD, IMF approval of a standby agreement and the upgrading from speculative to investment quality by six of the principal international credit rating agencies. Although Hungary met all of the conditions for draw-down of IMF resources, these resources have not been used. External debt balances were restructured and reduced. The coordinated efforts of the GOH administration and the Central Bank to manage aggregate demand and stabilize the economy was delicate but very successful. GDP growth was positive while inflation and balance of payments deficits declined markedly.

Values for two of the four performance indicators at the SO level, financial sector assets (% of GDP) and interest rate spread on enterprise accounts, significantly surpassed expectations. The target for financial sector assets, as reflected by total bank assets plus insurance premiums and BSE's capitalization, was exceeded by 12 percentage points. This successful performance is partly attributed to the dramatic growth in stock prices during the year. In 1997, access by Hungarians to the BSE will be facilitated by a new law passed in 1996 that allows brokerage activities by banks. USAID/Hungary assisted the GOH in the development of this law. Although insurance premiums increased, the target for growth was not achieved. The insurance industry is still very small relative to the size of the economy. Declines in interest rate spreads on enterprise accounts exceeded target by 0.6 percentage points. Should inflation continue to decline as expected in 1997 and 1998, and bank efficiency continues to improve, targets for these years are likely to be exceeded.

PERFORMANCE OF KEY INTERMEDIATE RESULTS

Improved Regulation and Supervision

Accomplishment of this IR, as measured by the number of comprehensive on-site bank examinations, exceeded the target of 15 by one audit. The quality of audits improved and

will continue to improve as a result of formal on-site bank examiner training provided by USAID/Hungary. In addition, a continued emphasis on institutional strengthening in this area is expected to result from adherence to the terms of a recently negotiated \$225 million World Bank "Enterprise and Financial Sector Adjustment Loan." Agreement on actions needed to be taken by the State Banking Supervision were adopted at the urging of USAID/Hungary and its implementing partners. Unfortunately, the State Banking Supervision authority appears to have failed to properly audit and supervise one of the largest banks in the system. This bank had significant problems in 1996 and early 1997. It is suspected that political influence and interference may have compromised the independence of the supervisory authority. The public perception of problems with this large bank and supervisory shortcomings could have endangered the integrity of the entire banking system.

Improved Operational Efficiency

Progress on this IR in 1996 was satisfactory. Performance of two key indicators, bank privatization and value added contribution to GDP met or exceeded expectations.

Financial institution value added, at 5% of GDP, met target. These positive results can be partially attributed to the government's success in implementing major fiscal reforms, a booming stock market and increased banking services, including money market trading and a greater diversity of investors in state securities. In addition, foreign owned banks undertook ambitious campaigns to open more branches. During 1996, USAID/Hungary provided assistance to establish a Hungarian Credit Rating Agency to facilitate increased, better informed investor involvement with Hungarian firms and municipal governments. USAID/Hungary housing sector activities facilitated increased access to retail banking with the introduction of deferred payment mortgages. More than 20% of new housing loans are now deferred payment mortgages.

Three banks were privatized in 1996, resulting in exceeding the cumulative target of five. A textbook example of a very successful privatization was the Hungarian Credit Bank (HCB), 90 % of which was purchased by the Dutch ABN AMRO Bank for \$89 million. USAID/Hungary assistance was instrumental in assisting the GOH in this privatization.

2. Expected Progress Through Close-out

A. Realistic Prospects for Achieving Objective by Close-out.

Prospects for achievement of this SO by 1999 are excellent. Assuming privatization of banks continues as expected, all commercial banking activities will be in private sector hands. All sector regulatory agencies will be fully professionalized. An operational credit rating agency will be underpinning the issuance of private sector and local government securities.

A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR					
INDICATOR	BASELINE	1996 TARGET	1996 ACTUAL	1999 TARGET	1999 ACCEPTABLE
financial sector assets as percent of GDP	100 (1991)	> 100	112	> 120	> 120
difference between interest rates on loans and deposits	6.1 (1991)	< 6.0	5.4	< 4.5	< 4.5
number of firms on Budapest Stock Exchange	20 (1991)	> 46	45	> 100	> 80
number of comprehensive bank examinations in past year	0 (1991)	> 15	16	> 18	> 18
cumulative number of banks restructured and privatized	0 (1991)	> 6	5	> 10	> 10

B. Managerial and Resource Adjustments to Reinforce Prospects for Success.

The State Bank Supervision activity, now scheduled for completion in January, 2000, will expand and accelerate work plans for 1998 and 1999 to allow completion four months earlier than planned. This will permit close-out by September 1999.

Personnel requirements for the management of activities under this SO are:

<i>Fiscal Year</i>	<i>Person Months</i>
1996 reference	13
1997	12
1998	12
1999	12

C. Brief Schedule for Termination of Principal Activities.

<i>Activity</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
0014 Assistance to Credit Rating Agency -First Wash.		12/98	
0014 State Banking Supervision -KPMG			6/99
0027.01 Financial Services -UST			6/99
0027.02 Financial Market Short-term TA -FSVC			6/99
0034 Housing Sector Assistance -Urban Institute			6/99

D. Recommendations to Continue Selected Activities after Close-out.

All activities associated with the financial SO are to be concluded by mid-1999.

E. Sustainability After Close-out

Financial markets in Hungary should be fully operational with a stock exchange, an independent and profitable credit rating agency and private banks supported by a sound regulatory environment monitored by regular on-site bank examinations and a professional financial and capital markets supervisory agency.

AN ECONOMICALLY SUSTAINABLE, RESTRUCTURED ENERGY SECTOR

1. Performance Analysis

The Hungarian energy sector progressed satisfactorily in 1996 towards achieving the strategic objective. The key assumptions, 1) government commitment to price rationalization, 2) continued growth of the national economy and 3) lower pollution levels that result in more efficient energy production and use, remain valid. Conditions are in place for economic growth to accelerate. Accordingly, the major factor affecting achievement of the SO is GOH resolve to permit investors adequate investment returns through cost-based prices and a functioning, transparent regulatory environment. The 1996 target of 1% return on investment in the sector was not realized because prices were not allowed to rise as promised due to political pressures and a priority GOH concern with reducing inflation. On average, household energy and heating costs in 1996 were 32.5% higher than in 1995. However, investment in the sector continued, based on confidence that appropriate restrictions on monopolized ownership are being put in place, and in perceptions of growing competence of the regulator. For consumers, even though they feel the pinch of rising energy prices, some 40% accept that the prices they pay are fair and just. Consumer acceptance of changes to assure adequate returns on energy sector investment to private investors and a competitive ownership structure is important confirmation of the political feasibility of moving the sector closer to economic sustainability.

PERFORMANCE OF KEY INTERMEDIATE RESULTS

Improved Efficiency of Production and Delivery

Significant progress was made on this IR in 1996. The target for the power sector being in private investor hands was achieved in 1996 when privatizations raised private equity participation to 36%. Despite a GOH deferral of promises to allow energy prices to rise so as to assure a market return to investors, the value of privatizations in the energy sector exceeded \$2 billion. USAID/Hungary assistance played a key role by helping the Hungarian Energy Office (HEO) redesign the operational code and answer investor inquiries about licensing procedures - boosting investor confidence that the regulatory environment is stable and fair. In addition, USAID/Hungary assistance to the MVM (acting as a holding company for units to be sold) improved internal management and readied properties for due diligence and successful private sector bids. Once realized, these privatizations will provide for significant improvements in the efficiency of power output and distribution. Many investors are already undertaking extensive modernization and investment plans that will upgrade equipment. These investments may soon amount to more than \$5 billion.

Two other important indicators, increased integration of the power system with Central Europe (CENTREL) and the Western European grid (UCPTE) and modernized management practices introduced, are on track for completion in 1997. Hungary, Czech,

Slovak and Polish partners in CENTREL were accepted on a trial basis in 1996 as part of the UCPTE grid system. USAID assistance in interconnected systems operations and management was an important part of this successful first stage. In 1997, after further testing and regulatory adjustments, CENTREL should achieve full UCPTE membership.

Effective Regulatory Body in Place

The 1997 target for having an effective regulatory body in place is expected to be achieved as planned. Over the past year, USAID/Hungary assistance was instrumental in HEO achievement of significantly improved competence, as demonstrated by: 1) issuance of over 10 licenses for power generation; 2) use of public participation procedures for new plant construction; 3) successful fielding of a large increase in a variety of investor regulatory inquiries and 4) serving as an effective autonomous regulator of a restructured energy sector. Additionally, the HEO developed a competitive bidding process for new capacity that has been accepted in draft by the GOH.

A targeted area where the HEO is fully meeting expectations is in its growing competency in issuing well defined, timely licenses. Even in the United States, a commonly accepted indicator of agency efficiency and pro-business climate is the speed with which the regulator issues uncontested permits and licenses. In 1995, the HEO on average took about 6 months to issue uncontested licenses. In 1996, this time was reduced to 90 days. With continued USAID/Hungary assistance, this time will be further reduced in 1997 to 60 days without any loss in the quality or clarity of the license agreements.

Two indicators measuring effectiveness of the HEO, the appointment of a Director for a fixed term and price regulation issued without Ministry interference, are expected to be achieved in 1997. Although the HEO is charged with creating and implementing long-term regulatory pricing arrangements, ultimate decisions on pricing remains subject to clearance by the Ministry of Industry, Trade and Tourism. In 1996, the Ministry overruled HEO pricing recommendations, thereby threatening the institution's credibility. The fact that investor confidence in the professional competence and integrity of the HEO staff remains secure is a solid indication that USAID/Hungary's objectives to build a competent, respected regulatory authority are on track.

Improved End-Use Efficiency

Improvements in energy efficiency are necessary to off set the economic burden caused by increased energy prices that, on average, rose over 32.5% in 1996 compared to 1995. Because of price increases, however, there is now a steadily growing market for energy efficient goods and services. This burgeoning market can be confirmed by two proxy indicators: (1) an increasing number of projects in the national energy efficiency revolving fund; and (2) the increasing number of firms actively involved in the energy efficiency market. Although there were no targets established for 1996, progress to date on USAID/Hungary funded activities suggests that 1997 and 1998 targets will be

achieved. Increased commercial activity in the area of energy efficient projects presages increased energy system efficiency.

Through demonstration projects and targeted training sessions that concentrate on project development and contractual options, USAID/Hungary will assist energy users, service providers and financiers in putting together commercially viable projects. The impact of these projects will be measured by the number of targeted public institutions (15 in 1997 and 25 in 1998) that implement energy efficiency programs financed from non-USAID resources.

Policies and Regulations are an important vehicle for promoting energy efficiency. There was good progress in 1996 and more progress is anticipated in 1997. In 1996, USAID/Hungary worked with the HEO to classify demand side management (DSM) programs by type with the result that a standard program reporting format for utilities is now available. This format was issued in draft form to distribution companies, thereby meeting the indicator target for 1996. Distribution firms with DSM programs in place increased to 15 in 1996. Targets of 30 DSM programs in place in 1997 and 50 by 1998, are on track.

2. Expected Progress Through Close-out

A. Realistic Prospects for Achieving Objective by Close-out.

Prospects for achieving the Energy SO's objectives by close-out are excellent. Although this strategic objective will be broadly achieved in 1997, USAID/Hungary financed activities will continue to be implemented until late 1998, when all planned activities will be completed. Improved efficiency of production and delivery through modernized management practices at the Hungarian Electricity Works (MVM) and a CENTREL grid ready for integration with the European grid will be completed. The director of the HEO will be appointed for a fixed term independent of the election cycle, effectively freeing HEO decision-making processes from political pressures. Completion of the HEO's institutional strengthening capacity to issue licenses, make appropriate pricing decisions and in general consolidate investor confidence in a competitive energy sector will be completed. The commercial viability of energy efficiency in both public and private institutions will be demonstrated. The HEO will routinely issue guidelines on demand side management (DSM), including economic analyses of distribution activities. Municipalities will be successfully tracking energy costs and distribution companies will have active DSM programs in place.

AN ECONOMICALLY SUSTAINABLE, RESTRUCTURED ENERGY SECTOR

INDICATOR	BASELINE	1996 TARGET	1996 ACTUAL	1999 TARGET	1999 ACCEPTABLE
percent return on investment in power sector	0 (1995)	≥ 1.0	negative	≥ 12.0	> 8.0
percent of power sector assets privately owned	0 (1994)	≥ 40	36	≥ 90	> 60
extent of international connections of CENTRAL grid	none (1994)	trial period	trial period	full partnership	full partnership
status of HEO guidelines on demand management	none (1995)	draft issued	draft issued	issued with economic analysis	issued with economic analysis
targeted municipalities tracking their energy expenditures	none (1996)	NA	none	≥ 15	> 10
price regulations issued by HEO without Ministry changes	Ministry regulated (1994)	no Ministry control	Ministry control	no Ministry control	no Ministry control
number of energy efficiency projects financed by targeted public institutions	none (1996)	NA	none	≥ 35	> 20

B. Managerial and Resource Adjustment to Reinforce Prospects for Success.

Since this SO team will not function after FY 1997, all energy sector activities will be treated as Special Initiatives. The Energy Efficiency Project with Electrotek Concepts will be continued as a Special Initiative activity until the activity is completed in 1998. This will reinforce prospects for successful completion of the SO.

Personnel requirements for the management of activities under this SO are:

<i>Fiscal Year</i>	<i>Person Months</i>
1996 reference	6
1997	6
1998	0
1999	0

C. Brief Schedule for Termination of Principal Activities.

Activity	1997	1998	1999
0030 Utility Partnership Program -USEA	9/97		
0030 Regulatory Restructuring -BECHTEL		3/98	
0030 Regional Energy Efficiency -ELECTROTEX		9/98	

D. Recommendations to Continue Selected Activities after Close-out.

Refer to “Managerial and Resource Adjustment to Reinforce Prospects for Success.”

E. Sustainability After Close-out

The HEO will be supervising a competitive energy sector by the time this strategic objective is completed. Hungary’s success with developing a genuinely competitive energy sector will largely determine sustainability. It is expected that the large ongoing private sector investments in energy will be a model of a competitive private sector course. USAID/Hungary assistance will have demonstrated the commercial feasibility of energy efficient projects. Should we be successful in demonstrating that financing is available for such projects, energy efficiency initiatives will be high on commercial and consumer agendas.

BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL

1. Performance Analysis

The focus of this strategic objective is to strengthen local governments, NGOs and the media by providing them with the necessary tools and knowledge to make them more effective, especially by encouraging interaction among them and with community residents. The strategy aims for a strong customer orientation, buttressed by well-publicized examples of indigenous success that can result in an increased sense of ownership of local issues on the part of citizens.

A basic prerequisite for improved responsiveness by local governments is a clear picture of constituent assessments of the current situation and their needs. This in itself is a new recognition by municipal governments, a number of which gathered baseline data in 1995 by commissioning the first statistically reliable survey allowing comparisons across a number of communities. The survey update conducted in 1996 indicates a possible improvement in citizen satisfaction, which nominally increased from 37% to 38% of respondents. Citizen ratings of opportunities for participation at the local government level increased from 39% to 41%. The most significant change, however, was an increase from 31% to 35% in citizen ratings of how local citizen inputs are taken into account by municipal governments.

Hungary's civil society, an important vehicle for grassroots democracy and local citizen participation, continued to grow in 1996. The Central Statistics Office calculates the number of non-profit associations and foundations at nearly 50 thousand, up from about 35 thousand in 1995. While this growth is important, a more significant measurement of the sector is the operating expenditures of NGOs as a percentage of GDP. This figure, important as a general indication of sector activity and significance, declined from 3.2% in 1993 to 2.9% in 1994 (most recent data available).

Substantial growth was recorded in 1996 in local media, the cornerstone of a stable democracy. Since formal controls on the media were lifted, the number and diversity of avenues for information flow have increased substantially. After promulgation of the December, 1995, Media Law, for example, the number of local TV and radio stations in the country increased from around 60 to 270 in 1996. This growth in local news outlets is vital since surveys show that citizens, while they may watch the national news, use the local TV and radio as well as county and local daily newspapers as their primary sources of information on local issues. USAID's work in strengthening the media and local government use of that media is essential. This conclusion is substantiated by a survey of

14 municipalities throughout the country in which citizen awareness of local government issues and activities was found to be only 24 on a scale of 0 to 100.¹

Initial field experience of this SO corroborates our assumption that a structured, grassroots approach is a critical catalyst for successful increases in citizen involvement. Consequently, many USAID/Hungary activities are demonstration-based and limited to a number of locations. To take the lessons learned and best practices from each demonstration site to the 3,300 municipalities Hungary now has requires special assistance modalities. The SO has created an activity, shared by all implementing partners, called "the Advocate" to carry results from the "few" to the "many." The Advocate distills generalized impacts from demonstration activities, provides value-added by reformulating methods, and exports outputs throughout Hungary using a variety of dissemination channels.

PERFORMANCE OF KEY INTERMEDIATE RESULTS

Increased Flow of Useful Information

The basic premise underlying this IR is that the free and unencumbered flow of information is both a fundamental element of a stable democracy and a means to maintain that democracy through informed, pluralistic decision-making. Furthermore, public officials will better serve their communities, earn increased taxpayer support and inspire constituents to participate more in local decisions if people are convinced that their offices and procedures are transparent and that citizens are treated as customers of digestible and objective public information. Since there were no longer formal controls on information in 1996, the number and diversity of avenues for information flow increased substantially. USAID/Hungary activities support improvement in the flow of information through a focus on the availability of public information through local governments and on the quality of information through work with independent media at the local level.

Local Government Provides Public Access to Information

The need for improved gathering and presentation of information and the need to communicate this information to local residents is a cornerstone of our work with local governments. For example, building on a demonstration project completed in early 1996, ten cities now regularly participate in a training program in which sound financial management strategies are taught. A fundamental lesson recognized by participants is that a municipal budget can not only be used as a management tool but also as a vehicle for communicating vital public information to constituents (see description under IR "Local Government More Effective and Responsive to Citizens").

¹ Average of survey responses on the following scale: 100 = highly informed; 67 = quite informed; 33 = slightly informed; and 0 = not informed.

Despite the promising results of such demonstration activities and rare examples of institutionalized mechanisms such as a civil society ombudsman or a PR official, the vast majority of municipalities lack a comprehensive, strategic approach to information provision. Given the clear need, the SOT determined through a self-assessment exercise that it needs to contribute to this portion of the IR in a more strategic and focused manner. Consequently, one of USAID/Hungary's implementing partners, ICMA, will design a comprehensive module that will cover a full range of issues from technology through techniques to change attitudes *vis-à-vis* information provision.

USAID/Hungary's strategy to increase the flow of useful information will be accomplished when citizens consider themselves well informed on local issues and when there is a considerable increase in the number of municipalities with an institutionalized way of providing public access to information.

Independent Media Strengthened at the Local Level

The recent rapid growth in the number of local broadcast media brought about increased needs for media training in covering local news. In 1996, a USAID/Hungary partner, the Center for Independent Journalism (CIJ), trained 120 local TV journalists representing television broadcast stations in local television news production techniques. In order to build a critical mass of local journalists with high professional standards, the CIJ will in 1997 train 40-50 TV and 25-30 radio station journalists. One measure of the effectiveness of this training will be a change in airtime devoted to local news and issues, which we expect to increase from, for example, the 1996 level of an average of 5.6 hours per week for television broadcasts. The speed with which favorable change will occur is highly dependent on media outlet finances.

Two intertwining issues affecting the future of local media and consequently the SOT's approach to its support are financial sustainability and municipal ownership vs. independence. In Hungary, almost all local television stations are sponsored by local governments facing declining funding availabilities. Radio stations are in far better financial positions since their costs are lower and local businesses tend to use relatively inexpensive radio rather than television for advertising. In order to deal with this constraint, USAID/Hungary has increased its emphasis on consortium building and issues and methods of financial sustainability in its media training program. The CIJ is also working with the Hungarian Association of Local Television Stations, whose members have recognized the need for representation.

Privatization of the Media - The GOH Media Law, passed in December 1995, calls for the privatization of a second national television channel by open tender and places a moratorium on commercial networking of local television stations until that occurs, hopefully before the 1998 elections. The privatization of MTV2 will significantly change the overall media environment, impacting local television stations with a reduced advertising base and possible reductions in access to other financial sources. On a positive side, it may also influence local stations to increase networking.

USAID/Hungary's training in production techniques and support to consortium building is aimed at strengthening local media outlets and increasing their commercial capabilities.

Municipal ownership of the media raises the question of the independence of local broadcast and print media. Although there is no clear concept of the extent of this problem, USAID/Hungary intends to address the issue in its training activities and will track citizen perceptions of media independence.

USAID/Hungary will consider its objectives related to this part of the IR met when local media stations are financially sustainable and when there are marked increases in the number of hours per week dedicated to local news broadcasts.

More Active and Responsive Civil Society

USAID/Hungary civil society assistance activities have made substantial contributions to sector progress in organizational capacity and inter-organizational cooperation. In 1996, Democracy Networks Hungary (DNH) established a nation-wide network of six satellite organizations, one more than originally planned, to provide hands-on support and training at the local level.

We consider passage of comprehensive NGO legislation and regulation to be a vital factor affecting the sector's basic capacity, legitimacy and stability. Because such legislation is not yet effective, large numbers of registered associations and foundations exist only on paper. This conveys a negative image of the sector as a system of fronts for individuals claiming unjustified tax protection.

In 1996, USAID/Hungary technical assistance supported drafting of such legislation. Also, as a credit to the DNH's prominent reputation and extensive local network, the Ministry of Education and Culture turned to DNH to support and play a principal role in organizing a series of debates in the non-profit sector in each of the 20 counties in Hungary so that the NGO's comments could be included in the draft legislation to be submitted to Parliament. This is the first time in the history of the country that such extensive, grassroots debates have been organized on any proposed legislation. Passage of the law is expected in mid-1997.

As the sector continues to mature, a primary concern during the close-out period, and the issue against which success of civil society development in Hungary will be gauged, is the relationship between NGOs and other sectors. With continued increase in legitimacy and capacity of this "third" sector as a partner in service delivery and decision-making, there must be reciprocal increases in levels of cooperation and support from the government and business sectors to assure sustainability. Promising examples already exist. In 1996, an innovative NGO incubator house was established with USAID/Hungary assistance by a local government in Pecs to provide on-going support to NGOs in its community. Our program addresses three key issues in NGO development: organizational capacity, advocacy and cooperation.

Increased NGO Capacity

In 1996, NGO assistance activities focused training efforts on basic capacity-building concepts such as proposal writing, project planning and financial management. DNH reports greater than expected progress toward increasing NGO capacity. Increases in the expertise of NGO leadership is evidenced by a substantial improvement in the content of grant proposals and a sector-wide increase in requests for longer, more sophisticated and more specialized courses concentrating on themes such as fundraising and management skills.

While the organizational capacity of bona fide associations and foundations is becoming fairly sophisticated, NGO finances are very weak. The GOH recently passed a "One percent law" that allows citizens to redirect one percent of their taxes to NGOs. Consequently, the GOH has cut general budget funding of NGOs in half. Although the assumption is that taxpayer designation will make up the difference, exactly what will transpire is highly uncertain. Preliminary tax returns to date show, for example, that only about 20% of taxpayers opt to direct 1% of their taxes to an NGO of their choice. According to estimates at the Hungarian Tax Office, such designations are not expected on more than 50% of returns. Such gaps in funding are exacerbated by restrictions on which NGOs may be eligible to receive this funding and by an approximate 6-month time lag in Tax Office receipts and subsequent transfers to NGOs.

To assure adequate financing, the sector must be innovative and consider appropriate fees for services and increased fundraising in the private sector. While partnerships with the private sector are nascent, increased financial contributions from non-government sources are expected and supported by activities of the DNH. Financial contributions to NGOs from non-government sources declined 4% in real terms in 1994, compared to 1993. It is critical to the sustainability of the sector that financial contributions to NGOs from non-government sources, currently only 14%, be substantially larger. USAID/Hungary activities under this IR also address such critical issues as collaboration on service delivery between local governments and NGOs.

Increased NGO Cooperation

There is evidence of a growing trend toward coalitions and collaborative alliances among NGOs to increase efficiency. A key factor in this is the network of partner NGOs that DNH has established. These satellites serve the associations and foundations in their vicinity as an umbrella organization. Reports from the satellites show that the number of NGOs sharing facilities, submitting joint applications for grants and working on collaborative projects may be increasing rapidly.

In addition to the satellite network, the program has been instrumental in the growth of 'telecottages' in Hungary. These multi-purpose resource centers support citizens and civic organizations with basic information and communications services. Modeled after a pilot telecottage in Csakbereny, four new telecottage NGOs will be established with DNH

grants, and negotiations with the central government are underway for a cooperative effort to expand this telecottage network to other communities.

Increased Advocacy

A prominent example of NGOs as public policy advocates on the national level is participation in regional debates on the pending NGO legislation. DNH alone involved over 250 NGOs in debates held at its satellite locations.

Such an example is an exception, however. Although the number of NGOs engaged in advocacy increased from 5,061 in 1993 to 6,329 in 1994, the weakest element of NGO activity in local communities is effectiveness as advocates. The concept of advocacy in the context of local governance and how it differs from basic organizational development lacks definition. USAID/Hungary activities in 1997 and 1998 will focus on increased advocacy effectiveness.

Improved Collaboration in Local Governance

An integral component of increased public participation in local decision-making is improved collaboration between government, NGOs and businesses to solve problems at the local level. For example, USAID/Hungary's approach is to demonstrate that local governments, using collaborative approaches, can deliver many services more effectively. USAID/Hungary experience demonstrates that local economic development in targeted areas can best be achieved through marshaling both public and private resources to shape community vision and growth paths. In the interest of long-term sustainability, the establishment of institutionalized mechanisms for collaborative decision making is a key focus of our activities.

Following passage of the Rural Development Act in 1995, the Hungarian government undertook a major initiative to decentralize the funding decisions of four major ministries as a way to spur rural development. County development councils were set up in 1996 to coordinate development and funding decisions in the counties. As these councils operationalize a mandate to oversee regional development plans and disburse funds for local projects, there are opportunities to integrate the collaborative model we helped develop and demonstrate in targeted communities.

Local Governments, NGOs and Private Sector Cooperate to Deliver Services

In 1996 USAID/Hungary undertook a new initiative to increase cooperation between local governments and local-level NGOs. Through training on contracting for services and grants earmarked for cooperative projects, this initiative seeds collaboration and leverages increased support from local governments for civil society counterparts. We expect to see tangible results from this activity in 1997.

Activities involving cooperative service delivery for the labor market are now maturing and show concrete results. Since 1994, USAID/Hungary has worked with County Labor

Centers, local businesses and soon-to-be dislocated workers to set up re-employment assistance committees (RACs) to train and counsel dislocated workers before they enter the ranks of the unemployed. RACs are based on the principle of collaboration between the public and private sectors and have been utilized in 14 counties plus Budapest to address lay-offs. The RACs have proven effective and are increasingly popular. Roughly 35 areas have used the model with placement rates of 30-65%, as compared to 15-40% in other areas.

While the model was introduced by USAID/Hungary, county labor centers (CLCs) themselves now locate and implement the model with decreasing supervision. For instance, one CLC is working to adapt the collaborative RAC approach to the issues of youth unemployment and persons finishing military service. In Ozd, a permanent job club for unemployed and dislocated workers was established through the efforts of the CLC branch office and the RAC. In Almasfuzito, based on the work of the RAC at an aluminum oxide factory to bring together local organizations to assist dislocated workers, the CLC, the municipality and the Local Enterprise Agency (LEA) jointly financed a job training curriculum established by the RAC.

USAID/Hungary has moved beyond the pilot stage in its labor market activities and now concentrates on spreading the model to new localities and institutionalizing it by working with regional and national decision makers. In another collaborative employment services program, Quick Start, employers and labor centers pay three-quarters of project costs once entirely paid by USAID. Moreover, a Quick Start manual has been published by the Hungarian Ministry of Labor as an official policy directive, ensuring continuation after USAID/Hungary close-out.

Local Governments, NGOs and Private Sector Establish Effective Collaborative Decision-making Fora

Results in activity demonstration mechanisms for collaboration are being institutionalized at the local level, providing on-going access to decision making and a permanent forum for community based planning. At the behest of the RACs, USAID/Hungary launched a collaborative local economic development (LED) initiative in 14 local areas that may involve up to 42 communities working together. These communities go through a four-step workshop resulting in an economic development plan and actual community projects.

It is too early to know how many collaboratively developed plans will result in funded projects and community action beyond the scope of the activity but early signs are encouraging. Out of 16 communities involved in local economic development, ten have drawn up funding-ready project proposals for regional development council considerations in the fall of 1997. Our target is 30 communities using a collaborative model of local economic development by 1999. Anecdotally, the first workshops have already led to a local economic development manager being named. He will receive support from a local foundation originally established to assist unemployed steelworkers.

A principle responsibility will be to coordinate relations between the local business sector, the municipal government and the CLC to promote economic development. There are signs that as national development funds are devolved to the regions for disbursement the LED collaborative model will position these communities to access funds and implement projects more effectively.

In one LED project, the local area concluded that a one-stop business information and assistance center, combining resources of the municipality, CLC, LEA and the chamber of commerce should be pursued. They have produced a plan and are now seeking funding from a broader base of support than would have been possible without use of the collaborative model.

A shift in attitude within the nonprofit sector occurred this past year. This shift is demonstrated by increased interest from NGOs and local governments to form coalitions and collaborative alliances to increase efficiency through coordination. Another example is the establishment of an NGO incubator in Pecs where the local government provides space and a consortium of local NGOs manages the operation. In addition to this "house of civic communities," which provides basic infrastructure support like communications, office and meeting space, the local government has also designated a civil society ombudsman to serve as liaison between the local government and the NGO community. We saw three instances of this mechanism in 1996 and our target is to replicate this institutionalized mechanism for collaboration in ten other communities in 1997.

Local Government More Effective and Responsive to its Citizens

There are some 3,300 municipalities in Hungary, three times as many as in 1990. This explosion of local self-government has effectively brought government to the people but has challenged the new administrations to develop competence and processes to effectively deliver the services demanded by citizens. The planned result of these activities is to develop and ensure replication of innovative pilot initiatives that address SO lower level results which are necessary and sufficient to make local governments more effective and responsive.

Improvement of General Management Capacity

USAID/Hungary's program is designed to assist in sophisticated financial management strategies such as program budgeting, capital budgeting, strategic planning, performance measurement, forecasting, financial analysis and presentation skills. The program started with a pilot demonstration in Szolnok and will be completed with the institutionalization of USAID/Hungary assistance in a new association of municipal finance officers.

Prior to this technical assistance, Szolnok's budget emphasized line item detail, not understanding, of city programs. There was no multi-year forecasting, cost analysis or budget monitoring and analysis. In contrast, Szolnok's 1996 budget consisted of program budgets based on a hierarchy of goals, objectives and performance measures for 64 institutions, as well as a full budget concept for programs. As a result of this budgetary

reform, the city's decision-making process now links community needs, trends and government priorities. Better financial management practices also make city officials better advocates for policy needs, and better equipped to deal with the central government on policy issues.

The Szolnok success met the target of one municipality employing sophisticated budget tools in 1996. Building on the Szolnok project, ten cities now regularly participate in a training program with Szolnok officials serving as resources. The program consists of six workshops that track the annual budget process. Almost all of these municipalities have now adopted one or more of the strategies. The involved local governments also adopted other new tools such as forecasting the budget up to 2000, strategic thinking, and the use of fiscal indicators and performance measures.

The goal of 40 municipalities participating by 1999 is far short of the adoption of sophisticated budgeting by all municipalities in Hungary. Future workshop series will be improved and prepared for sustainability. Informal interaction between budget officials will be facilitated through fostering the development of an association of budget officials. Our target is to see such an association created and offering a budget course by 1999.

In addition to the work on institutionalization with the association, we are creating a case-study-based module for the School of Public Administration. The School will use the module to offer professional development courses as well as their own curriculum. In addition, USAID's Advocate function is working to make budget and finance materials available as a self-study course. These inter-related initiatives are designed to carry the success of pilot activities to the majority of Hungarian municipalities. This will not occur, however, until well past our planned 1999 close-out. Reaching the target of 40 by 1999 will indicate that program content and delivery methods are working and that the institutions required for sustainability are in place.

Increased Inter-Local Cooperation

The dramatic recent increase in the number of municipalities not only stressed available management capacity, it also distorted scale economies of service delivery. Every municipality is mandated to deliver more than 30 services to its citizens. Some services, such as solid waste disposal, are not efficient or environmentally sound if operated on a small scale. Despite municipality desires for autonomy, there are strong reasons for inter-local cooperation. Working in a range of small communities, USAID/Hungary's program develops methods, techniques and tools to set standards and guidelines for inter-local cooperation.

Economic development projects have been undertaken in three separate locations involving multiple jurisdictions throughout Hungary. Some twenty local governments work cooperatively to address common problems. Five economic development councils have been created to provide a forum and a conduit for cooperation. Goal demonstration projects are underway to assist about a dozen municipalities in Hajdu-Bihar County to

cooperate in providing solid waste services. Also, in Csongrad and Hajdu-Bihar Counties computer database networks are being developed.

Lessons learned from these pilot activities will be collected into a workbook manual for inter-local cooperation and a national conference will be held. The conference will be hosted by municipal officials from pilot communities. Following the conference, the program will provide extension-type advice to other communities interested in putting lessons learned into practice. In addition, the Advocate will use the manual as a basis for a self-study course and a module will be developed from these experiences for the School of Public Administration.

Improving National Level Framework for Efficient Local Government

A group of municipal associations formed, on their own initiative, the Council of Local Government Associations in the fall of 1995. In the fall of 1996, USAID/Hungary assistance was instrumental in bringing the Council leadership together with major central government ministry officials to begin the process of making the Council a recognized voice of local government. USAID/Hungary sponsored an observation tour to the U.S. of ten high ministry officials, one parliamentarian and five local government association leaders. The participants in that tour are now key counterparts in the program's pursuit of this result.

Assistance to the Council is targeted on its role as an advocate for local governments. Its function as a provider of services and information will be addressed, but the basic assistance in this area is being supported by EU PHARE and the World Bank. In 1997, the capacity of the Council will be strengthened and USAID/Hungary will work with it to develop strong programs of issue advocacy as well as a business plan to insure self-sufficiency. USAID/Hungary assistance will continue to bring council leadership together with national officials to allow dialog and improve communication. Indicators of success in this activity would include recognition of the Council for Local Government Associations by Parliament, ministry officials and official representatives of municipalities and assurance that the Council is sustainable as indicated by own-source revenues as a percentage of expenditures.

2. Expected Progress Through Close-out

A. Realistic Prospects for Achieving Objective by Close-out.

Although achievement of all intermediate results is expected before September, 1999, numerous recent changes that complicate projections of future progress are cited above. How well new legislation and new policy is implemented is critical for continued progress. The Media Law, One Percent Law for funding NGOs, Law on Municipal Associations, regional development councils, and the forthcoming national elections each impose significant uncertainty on prospects for achieving this SO.

BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL

INDICATOR	BASELINE	1996 TARGET	1996 ACTUAL	1999 TARGET	1999 ACCEPTABLE
Citizen satisfaction w/ local Gov.	1995 - 37%	NA	38%	45%	Consistently rising
Citizen rating of opportunities to participate in decision making at local level	1995 - 39	NA	41	47	Consistently rising
Citizen rating of impact of input	1995- 31	NA	35	43	Consistently rising
Citizen awareness of local government issues and activities		NA	24%	40%	Consistently rising
Airtime devoted to local news by local television stations (hours per week)	1990-	NA	5.6	7.0	Consistently rising
Expenditures of NGOs in civil sector as % of GDP	1993 - 3.2	NA	1994 - 2.9	4	3.5
Financial contributions to NGOs from non-governmental sources (percentage of total revenues)	1993 -	NA	1994 - 14%	1996- 22%	20%
NGO enabling legislation passed	1990 - NO	YES	NO	YES	YES
NGOs engaged in advocacy	1993 - 5061	NA	1994 - 6329	1996 - 10,000	9,000
Country-wide NGO support network (number of satellite centers, telecottages)	1990 - 0	5	6	6	6
Municipalities with institutionalized mechanisms for collaboration with NGOs (number of civil ombudsmen, etc.)	1990 - 0	2	3	10	6
Cross-sector collaborative committees formed to solve problems in targeted communities (number)	1990 - 0	15	DoL - 16	DoL - 30	DoL -25
Targeted municipalities use budgets as mgmt. tools (number)	1990 - 0	1	1	40	30
Cooperative agreements between municipalities (number)	1990 - 0		ICMA - 4	ICMA -16	ICMA -12
Municipalities involved in cooperation (number)	1990 - 0		ICMA -	ICMA -50	ICMA -45
Association of municipal finance officers created	NO	NO	NO	YES	YES
Own source revenue of Council of Local Government Associations as percentage of expenditures	0			65%	65%
Council of Local Government Associations recognized by GOH as official representative of municipalities	NO	NO	NO	YES	YES

B. Managerial and Resource Adjustments to Reinforce Prospects for Success.

Minor changes have been made to the approved strategic framework. The two lower-level results - *Local Government and NGOs Cooperate to Deliver Services* and *Mechanism for Collaborative Decisions* have been linked to a new, single Intermediate Result - *Improved Collaboration in Local Governance*. This increases the number of intermediate results to four: (1) Increased Flow of Useful Information, (2) More Active and Responsive Civil Society, (3) Improved Collaboration in Local Governance and (4) Local Government More Effective and Responsive to Citizens

The current staffing level will be maintained until July 1997. The five core-member team will be reduced to four at this time. A further reduction of one member will occur in November 1998. Three core-members, all locally-hired, will continue through close-out.

Personnel requirements for the management of activities under this SO are:

<i>Fiscal Year</i>	<i>Person Months</i>
1996	42
1997	39
1998	35
1999	23

C. Brief Schedule for Termination of Principal Activities.

<i>Activity</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
0022 Professional Media Training -IREX	12/97		
0033 Labor Restructuring -DOL		9/98	
0019.07 Public Administration -ICMA		12/98	
00037 Health Partnerships -AIHA		12/98	
0032.09 Democracy Networks ² -UWI			6/99
0034 Housing Sector Assistance -Urban Institute			6/99
0034 Democracy Advocate -Urban Institute			6/99
0021.13 Democracy Commission Small Grants -USIA			6/99

D. Recommendation to Continue Selected Activities after Close-out

We are proposing, through a one year extension of DNH activities, to address the issue of greater support and cooperation from the private sector. Hungary, with more than 70 percent of its economy privatized, could serve as a model for other countries of the region. Obligations planned for FY 1997 and FY 1998 should provide a sufficient pipeline as the end of FY 1999 to fund one additional year of activities through

² Considerations for continuing beyond September 1999 are discussed in the next paragraph

September 2000. Management responsibility after USAID/Hungary close-out would be assumed by the new USAID Regional Office located in Budapest.

Although targeted NGOs are making tremendous contributions in local services delivery and are beginning to have impacts through local advocacy roles, they are precariously dependent on foreign donor assistance and GOH support. Long-term sustainability of their activities requires significantly increased support and cooperation from the private sector.

Discussions are now underway on how to obtain significant increased business sector support for community development foundations. Through more intensive technical assistance financed from modest endowment funding, the Democracy Networks program seeks to develop from existing NGOs two or three community development foundations that would serve as sustainable models for private sector-civil society cooperation. The program requires minimal USAID oversight and the additional funding could be in the form of a grant funded endowment made possible by restructuring USAID/Hungary's program.

E. Sustainability After Close-out

Mechanisms for advancing sustainability are focused mainly in Municipal Associations and the Center for Municipal Innovations. Strengthened municipalities networking through the Municipal Association will be instrumental in ensuring that municipalities' innovations and best practices whether indigenous or donor supported are adequately disseminated. The Center for Municipal Innovation will play an important role in discovering, documenting and disseminating innovations, best practices and success stories to Hungarian communities. Donor Coordination "Town Hall Meetings" are providing a forum for identifying Donors and activities that will continue in the future after USAID/Hungary close-out.

CROSS CUTTING AND SPECIAL INITIATIVES

1. Analysis

Under this special objective there are currently four activities outside USAID/Hungary's five core Strategic Objectives and two activities that support the mission's entire program.

English as a Foreign Language (EFL). This program places EFL experts in Hungary to teach pedagogical techniques, classroom management skills and American culture at Hungarian institutions. USIS administers this activity to transfer democratic methods to Hungarian training institutions. Five Fellows are in-country this year, and three are planned for next year. The program will close at the end of FY 1998.

Top-up Grants. This activity is administered by USIS. These grants support Hungarian students through supplementary funds for study in the United States. The last year of funding was 1996. All participants are expected to complete their work by September 1997.

Ron Brown Scholarships. The activity is administered by USIS. It provides support for Hungarians graduate students and professionals to study at leading U.S. institutions. This fellowship combines advanced academic work with professional development activities such as internships, workshops, and alumni networking. 1998 will be the only year of funding and all participants are expected to complete their studies in 1999 (or 2000 if two year study programs are approved).

Water Quality and Investment. USAID and the governments of Hungary, Slovakia, and Romania have pledged to cooperate in reducing toxic compound emissions in selected cross-boundary rivers. This regional project has established a cross-boundary monitoring and communication network which facilitates regional pollution warnings and emergency mitigation plans. It also identifies specific pollution danger zones and major industrial polluters, and provides assistance, training and equipment to address environmental issues. The activity will close out in September 1998.

Participant Training. This activity provides U.S.-based professional training to Hungarian participants in support of the Mission's Strategic Objectives. The last year of funding will be FY 1998. All participants are expected to complete training by June 1999.

Audit Evaluation and Project Support (AEPS). The AEPS account provides support to USAID/Hungary SOs through the development of customer service plans, baseline data collection for SO indicators, independent evaluations of activities, etc. The AEPS account will also be used as a vehicle to provide activity and SO close-out support in 1998 and 1999.

B. Managerial and Resource Adjustments to Reinforce Prospects for Success.

Personnel requirements for the management of activities under this SO are as follows:

<i>Fiscal Year</i>	<i>Person Months</i>
1996	
1997	1
1998	3
1999	3

C. Brief Schedule for Termination of Principal Activities.

<i>Activity</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
0045.02 Top-up Grants -USIS	6/97		
0002.09 English Teaching -USIS		9/98	
0030 BECHTEL		3/98	
0039.09 Water Quality Investment -GEF		6/98	
0030 ELECTROTEX		9/98	
0045.01 Participant Training -World Learning			6/99
0045.06 Ron Brown Scholarships -USIS			6/99
0249 Audit Evaluation and Project Support			9/99

PART III: STATUS OF THE MANAGEMENT CONTRACT

The Management Contract approved 8/23/96 is on track and does not require any significant changes. The list below provides a schedule of planned close-out actions.

Non-Exhaustive List of Schedule of Close-out Actions

March 1997	Letter sent by Ambassador to GOH advising of Hungary's graduation and USAID/Hungary Program close-out intentions (completed).
April 1997	Public Relations Effort launched for Sensitizing Public to USAID departure/Hungary graduation.
May 1997	Records Reorganization and Disposal Plan developed.
June 1997	Activity Close Out Schedule Approved by AID/W.
July 1997	Outplacement Skills Development Program Established.
Sept. 1997	New Employee Incentive/Awards Program Agreed Upon with AID/W and Embassy.
Sept. 1997	Operational Close-out Plan/Checklists Completed.
Nov. 1997	Close-out Conference held, introducing partners to specific close-out requirements and answering questions.
April 1998	Review of Country Performance and determination if any further post-presence activities/funding is required/desirable.
June 1998	Sector/SO Program Accomplishment Reports completed for all graduated SOs and sectors, including Energy.
July 1998	All but core EXO activities transferred from Bi-lateral Mission.
June 1999	All but three Activities will be completed. Final physical close-out Phase begins.
July 1999	High-level Close-Out/Graduation Ceremony held.
Sept. 1999	All property disposed of Building and Residential Property Turned over/USAID/Hungary close-out completed.

PART IV: RESOURCE INFORMATION

1. Program Management

Scenario: In order for close-out to be fully achieved by September 1999, all but a very few activities must close by June 1999. We see the final quarter of FY 1999 as essentially paperwork, assessments and disposal of commodities.

During 1997, the Energy Strategic Objective will be graduated, leaving four, which will continue until program close-out.

Program staff will decrease from 18 full time positions in FY 1996, including 2 USDH, to 14 full time positions including 2 USDH, in FY 1998.

Administrative Support

Scenario: USAID/Hungary is currently charged with significant administrative support for the Regional Inspector General's Office and all administrative support of the Regional Support Center. USAID's close-out coincides with the Regional Support Center's gearing up and taking over its own administrative support. At one point, the Bi-lateral USAID will be able to rely on the RSC's capacity for administrative support. While conceivably different functions will be fully staffed at different times, we foresee this transfer by the Summer of 1998.

Thus, USAID's support Staff will begin decreasing during the Summer of 1998 when some administrative functions are moved to the Regional Support Center (RSC). During the second half of FY 1998 and for the final fiscal year of implementation, RSC will provide all but core EXO functions to the bi-lateral Mission.

A key administrative support capacity must be kept by USAID/Hungary to enable proper functioning of the office and support for close-out. Important examples include: budgeting, organization and regulation; transportation; certain supply handling; personnel actions related to job reclassifications and close-out; communications (but not overall responsibility for records management); office systems.

By June of FY 1998, EXO support function personnel will decrease from the current 13 to 7. At issue is whether these positions can be moved over to RSC without re-competing and further jeopardizing employee job security.

Estimated levels of resources (staff, OE, and Program) needed to achieve the results agreed to in the management contract.

	Personnel/Fiscal Years				
	1996	1997	1998	1999	
				August	Sept. 30
Program	18	13	14	13	0
Admin.	13	15	13	11	2
TOTAL	31	28	27	24	2

2. Prioritization of Objectives

- 1. INCREASED SOUNDNESS OF FISCAL POLICY AND FISCAL MANAGEMENT PRACTICES.** Since our first Strategic Plan, USAID/Hungary has argued that Hungary's success in stabilizing its inflation rate, promoting investment and preparing entry into international organizations such as the European Union and NATO require successful fiscal reform. This will remain our highest priority until close-out
- 2. BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL** An integral corollary to decentralizing power and decision making from the Central Government is the strengthening of grass-roots local government and non-governmental organizations. Only when Hungary's transition can answer the public's question of who, if not the central government, provides services, will Hungary's transition be complete.
- 3. A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR.** Hungary's ability to attract additional capital, mobilize domestic savings and assure capital fluidity is highly dependent on transparent, efficient capital markets. In addition, other important reforms relating to our Fiscal Objective depend on proper performance of the Financial Sector, particularly for successful pension reform.
- 4. IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES.** Hungary's domestic growth depends on improved performance of the SME sector. However, the sector now appears to be responding despite continued constraints.
- 5. AN ECONOMICALLY SUSTAINABLE, RESTRUCTURED ENERGY SECTOR.**

3. Workforce and OE

Operating Expenses

As close-out approaches in FY 1999, Operating Expenses will decrease only slightly. While there is a reduction in staff salaries (currently FSN salaries are not keeping pace with inflation, hence a decrease when budgeting in US dollars) and no purchase of furniture and equipment, this will be offset by severance and training for employees, as well as repatriation of Direct Hire employees. Other Operating Expenses will remain at levels similar to those of FY 1998 due to fixed office rental and maintenance costs, office operating expenses and disposal of non-expendable property.

PLEASE NOTE THAT THE OE BUDGET IS PENDING CONTROLLER
APPROVAL AND WILL BE SUBMITTED AT A LATER DATE.

USAID FY 1997 Budget Request by Program/Country
(\$000)

14-Apr-97
03:00 PM

Country/Program: USAID HUNGARY

S.O. #	Title	Bilateral/ Field Spt	Est. SO Pipeline at end of FY 96	FY 1997 Request								Est Expend. FY 97	Est Total cost life of SO	Mortgage at end of 1997	
				FY 1997 Total Request	Basic Education for Childrn	Other Economic Growth	Population	Child Survival	HIV/AIDS	Other Health	Environ				D/G
SO 1: INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES															
	SEED	Bilateral Field Spt	3,449,123	2,425,000	0	2,425,000	0	0	0	0	0	0	3,543,312	8,324,123	1,750,000
	Total		3,449,123	2,425,000	0	2,425,000	0	0	0	0	0	0	3,543,312	8,324,123	1,750,000
SO 2: IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES															
	SEED	Bilateral Field Spt	9,896,058	5,150,000	0	5,150,000	0	0	0	0	0	0	8,810,529	16,399,736	1,150,000
	Total		9,896,058	5,150,000	0	5,150,000	0	0	0	0	0	0	8,810,529	16,399,736	1,150,000
SO 3: A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR															
	SEED	Bilateral Field Spt	3,351,648	3,275,000	0	3,275,000	0	0	0	0	0	0	4,132,073	0	1,350,000
	Total		3,351,648	3,275,000	0	3,275,000	0	0	0	0	0	0	4,132,073	0	1,350,000
SO 4: AN ECONOMICALLY SUSTAINABLE RESTRUCTURED ENERGY SECTOR															
	SEED	Bilateral Field Spt	1,879,960	0	0	0	0	0	0	0	0	0	939,980	1,879,960	0
	Total		1,879,960	0	0	0	0	0	0	0	0	0	939,980	1,879,960	0
SO 5: BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL															
	SEED	Bilateral Field Spt	6,312,065	2,850,000	0	2,850,000	0	0	0	0	0	2,850,000	5,293,533	11,687,065	1,750,000
	Total		6,312,065	2,850,000	0	2,850,000	0	0	0	0	0	2,850,000	5,293,533	11,687,065	1,750,000
SO 6: CROSS CUTTING AND SPECIAL INITIATIVES															
	SEED	Bilateral Field Spt	1,297,600	1,300,000	0	900,000	0	0	0	0	0	400,000	1,623,800	0	1,000,000
	Total		1,297,600	1,300,000	0	900,000	0	0	0	0	0	400,000	1,623,800	0	1,000,000
SPO 1 (Type in approved full title of SPO here)															
		Bilateral Field Spt	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total		0	0	0	0	0	0	0	0	0	0	0	0	0
SPO 2 (Type in approved full title of SPO here)															
		Bilateral Field Spt	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total		0	0	0	0	0	0	0	0	0	0	0	0	0
Total Bilateral			0	0	0	0	0	0	0	0	0	0	0	0	0
Total Field Support			26,186,452	15,000,000	0	11,750,000	0	0	0	0	0	3,250,000	24,343,226	38,290,884	7,000,000
TOTAL PROGRAM			26,186,452	15,000,000	0	11,750,000	0	0	0	0	0	3,250,000	24,343,226	38,290,884	7,000,000

FY 97 Budget Request by Appropriation - (\$000's)

Development Assistance	0
Development Fund for Africa	0
Economic Support Funds	0
SEED	15,000,000
FSA	0
PL 480 Title II	0
PL 480 Title III	0
Micro & Small Ent. Dev. Credit Program	0
Housing Investment Guarantee Program	0
Enhanced Credit Program	0
Disaster Assistance	0

BEST AVAILABLE COPY

USAID FY 1998 Budget Request by Program/Country
(\$000)

Country/Program: USAID HUNGARY

E.O. #	Title	Est. SO		FY 1998 Request										Est. Total cost life of SO	Mortgage at end of 1998		
		Bilateral/Field Spt	Pipeline at end of FY 97	FY 1998 Total Request	Basic Education for Children	Other Economic Growth	Population Survival	Child Survival	HIV/AIDS	Other Health	Environ	D/G	Est. Expend. FY 98				
SO 1: INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES																	
	SEED	Bilateral	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Field Spt	2,330,812	1,700,000	0	1,700,000	0	0	0	0	0	0	0	0	2,827,105	8,324,123	0
	Total		2,330,812	1,700,000	0	1,700,000	0	0	0	0	0	0	0	0	2,827,105	8,324,123	0
SO 2: IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES																	
	SEED	Bilateral	6,235,529	1,150,000	0	1,150,000	0	0	0	0	0	0	0	0	5,315,726	16,399,736	0
		Field Spt	9,255,529	1,150,000	0	1,150,000	0	0	0	0	0	0	0	0	5,315,726	16,399,736	0
	Total		15,491,058	2,300,000	0	2,300,000	0	0	0	0	0	0	0	0	10,631,452	32,799,472	0
SO 3: A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR																	
	SEED	Bilateral	2,494,573	1,350,000	0	1,350,000	0	0	0	0	0	0	0	0	2,520,741	0	0
		Field Spt	2,494,573	1,350,000	0	1,350,000	0	0	0	0	0	0	0	0	2,520,741	0	0
	Total		4,989,146	2,700,000	0	2,700,000	0	0	0	0	0	0	0	0	5,041,482	0	0
SO 4: AN ECONOMICALLY SUSTAINABLE RESTRUCTURED ENERGY SECTOR																	
	SEED	Bilateral	939,980	0	0	0	0	0	0	0	0	0	0	0	939,980	1,879,960	0
		Field Spt	939,980	0	0	0	0	0	0	0	0	0	0	0	939,980	1,879,960	0
	Total		1,879,960	0	0	0	0	0	0	0	0	0	0	0	1,879,960	3,759,920	0
SO 5: BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL																	
	SEED	Bilateral	3,868,533	1,800,000	0	0	0	0	0	0	0	0	0	0	4,190,429	11,687,065	0
		Field Spt	2,555,533	1,800,000	0	0	0	0	0	0	0	0	0	0	4,190,429	11,687,065	0
	Total		6,424,066	3,600,000	0	0	0	0	0	0	0	0	0	0	8,380,858	23,374,130	0
SO 6: CROSS CUTTING AND SPECIAL INITIATIVES																	
	SEED	Bilateral	973,800	1,000,000	0	450,000	0	0	0	0	0	0	0	0	1,333,920	0	0
		Field Spt	873,800	1,000,000	0	450,000	0	0	0	0	0	0	0	0	1,333,920	0	0
	Total		1,847,600	2,000,000	0	900,000	0	0	0	0	0	0	0	0	2,667,840	0	0
SPO 1 (Type in approved full title of SPO here)																	
		Bilateral	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Field Spt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SPO 2 (Type in approved full title of SPO here)																	
		Bilateral	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Field Spt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Field Support		16,843,228	7,000,000	0	4,650,000	0	0	0	0	0	0	0	0	17,127,901	39,290,864	0
	TOTAL PROGRAM		16,843,228	7,000,000	0	4,650,000	0	0	0	0	0	0	0	17,127,901	39,290,864	0	0

FY 98 Budget Request by Appropriation - (\$000's)

Development Assistance	0
Development Fund for Africa	0
Economic Support Funds	7,000,000
SEED	0
FSA	0
PL 480 Title II	0
PL 480 Title III	0
Micro & Small Ent. Dev. Credit Program	0
Housing Investment Guarantee Program	0
Enhanced Credit Program	0
Disaster Assistance	0

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USAID FY 1999 Budget Request by Program/Country
(\$000)

14-Apr-97
03:00 PM

Country/Program: USAID HUNGARY

S.O. #	Title	Est. SO Pipeline at end of FY 98	FY 1999 Request										Est Expend. FY 99	Est Total cost life of SO	Mortgage at end of 1999	
			FY 1999 Total Request	Basic Education for Childrn	Other Economic Growth	Population	Child Survival	HIV/AIDS	Other Health	Environ	D/G					
SO 1: INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
SEED	Field Spt	1,203,706	0	0	0	0	0	0	0	0	0	0	0	0	1,203,706	8,324,123
	Total	1,203,706	0	0	0	0	0	0	0	0	0	0	0	0	1,203,706	8,324,123
SO 2: IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
SEED	Field Spt	2,069,803	0	0	0	0	0	0	0	0	0	0	0	0	2,069,803	16,399,736
	Total	2,069,803	0	0	0	0	0	0	0	0	0	0	0	0	2,069,803	16,399,736
SO 3: A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
SEED	Field Spt	1,323,832	0	0	0	0	0	0	0	0	0	0	0	0	1,323,832	0
	Total	1,323,832	0	0	0	0	0	0	0	0	0	0	0	0	1,323,832	0
SO 4: AN ECONOMICALLY SUSTAINABLE RESTRUCTURED ENERGY SECTOR																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
SEED	Field Spt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,879,960
	Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,879,960
SO 5: BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
SEED	Field Spt	1,478,103	0	0	0	0	0	0	0	0	0	0	0	0	1,478,103	11,687,065
	Total	1,478,103	0	0	0	0	0	0	0	0	0	0	0	0	1,478,103	11,687,065
SO 6: CROSS CUTTING AND SPECIAL INITIATIVES																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
SEED	Field Spt	639,880	0	0	0	0	0	0	0	0	0	0	0	0	639,880	0
	Total	639,880	0	0	0	0	0	0	0	0	0	0	0	0	639,880	0
SP0 1 (Type in approved full title of SPO here)																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Field Spt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SP0 2 (Type in approved full title of SPO here)																
	Bilateral		0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Field Spt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Bilateral			0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Field Support			6,715,325	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL PROGRAM			6,715,325	0	0	0	0	0	0	0	0	0	0	0	6,715,325	38,290,884

FY 99 Budget Request by Appropriation - (\$000's)	
Development Assistance	0
Development Fund for Africa	0
Economic Support Funds	0
SEED	0
FSA	0
PL 480 Title II	0
PL 480 Title III	0
Micro & Small Ent. Dev. Credit Program	0
Housing Investment Guarantee Program	0
Enhanced Credit Program	0
Disaster Assistance	0

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USAID/HUNGARY BUDGET SUMMARY 1997-1998

NO	AN Activity	Partner	1997	1998
NO. 1 INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES				
180-0027	.01 Tax Administration	Treas. Dept.	475,000	475,000
180-0027	.01 Pension Fund Supervision	Treas. Dept.	475,000	475,000
180-0027	.02 Fiscal Reform	FSVC	100,000	100,000
180-0004	.11 Environ. Econ. (Advisor at Min. of Finance)	HIID	100,000	0
180-0014	* Tax and Pension Reform	TBD	0	0
180-0023	.03 Pension Reform	CIPE	250,000	0
180-0036	* Protocol Guidelines	Dept. Health & Human Res.	400,000	100,000
180-0036	* Hospital Accreditation	Joint Commission on Accred.	0	50,000
180-0036	* Outpatient Care	SOLON	300,000	50,000
180-0036	* Rational Drug Use	TBD	150,000	200,000
180-0021	.01 Educational Reform	USIA	0	0
XXXX	* Prime Minister Office Support	TBD	0	100,000
XXXX	* Policy Reform	Agency IQCs	175,000	150,000
1.2 Total			2,425,000	1,700,000
NO. 2 IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES				
180-0014	* ESOPs Assistance	Shared Participation	150,000	0
180-0014	* Corp. Resource Center (SME evaluation & support)	East-West Bus. Center/RONCO	959,924	0
180-0014	* OTP LPG (Small Business Loans)	KPMG-Barents	0	0
180-0023	.03 Private Enterprise Development	CIPE	500,000	250,000
180-0023	.05 Private Enterprise TA (MBA Advisors)	MBA Enterprise Corps	0	0
180-0023	.07 Peace Corps (Business Development Grants)	Peace Corps	0	0
180-0023	.11 Entrep. Mgmt. & Executive Dev. (Business Training)	PIET	300,000	0
180-0024	.01 TA to Agr. Sector (Regional Access to Info. and Credit)	VOCA	1,580,000	230,000
180-0024	.04 TA to Agr. Sector (Regional Access to Info. and Credit)	ACDI	0	350,000
180-0024	* Info Fac/S.O. Support	na	150,000	250,000
180-0029	.01 Total Quality Management Centers	SUNY	500,000	0
180-0029	.01 Management Training & Economic Education	Indiana University	100,000	0
180-0034	* Housing Sector Assistance	EE Real Property	0	0
180-0034	* Housing Sector Assistance	Urban Institute	500,000	0
180-XXXX	* SME Policy	TBD	410,076	70,000
1.3 Total			6,150,000	1,150,000
NO. 3 A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR				
180-0014	* State Banking Supervision (Bank Evaluation Support)	Barents	1,445,000	475,000
180-0027	.01 TA/Financial Services (Short-term TA)	Treas. Dept.	475,000	475,000
180-0027	.02 Financial Markets Dev. (Volunteer Advisors)	FSVC	205,000	150,000
180-0034	* Housing Sector Assistance	Urban Institute	550,000	200,000
180-0014	* Credit Rating Agency	First Washington Associates	600,000	50,000
			2,275,000	1,250,000

USAID/HUNGARY BUDGET SUMMARY 1997-1998

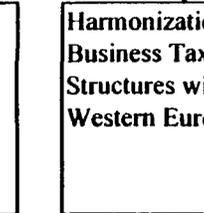
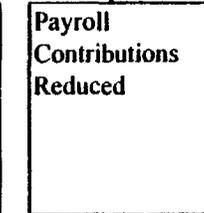
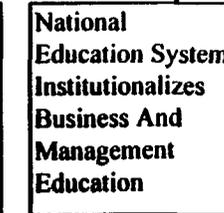
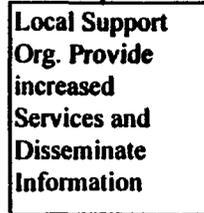
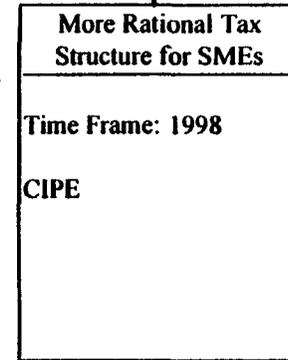
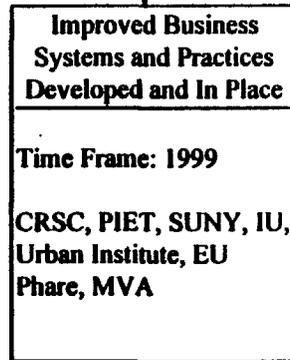
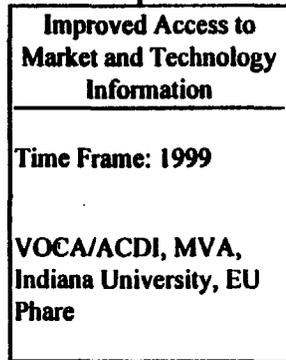
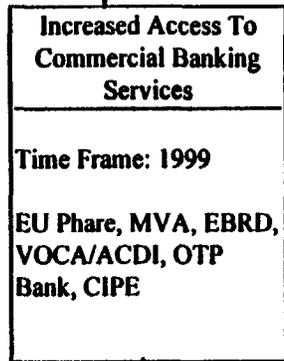
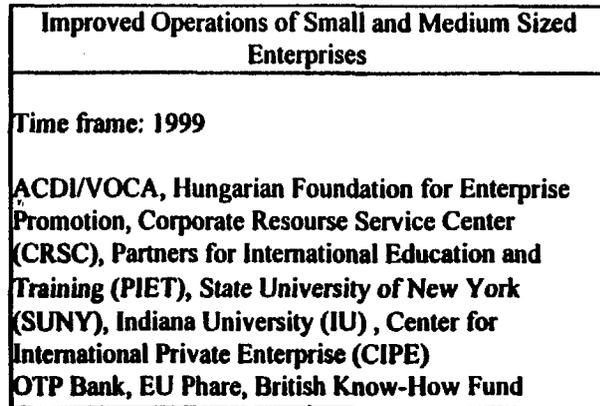
NO	AN	Activity	Partner	1997	1998
1.5 AN ECONOMICALLY SUSTAINABLE RESTRUCTURED ENERGY SECTOR					
180-0030	.01	Industry Contracts/ Utility Grants	Bechtel Corp. etc.	0	0
1.5 Total				0	0
2.1 BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL					
180-0004	.06	NGO Grant Support	Regional Environ. Center	0	100,000
180-0019	.07	Public Administration (<i>Local Government Support</i>)	ICMA	250,000	200,000
180-0021	.13	Demo. Commission Small Grants (<i>NGO Support</i>)	USIA	150,000	100,000
180-0022		Professional Media Program	IREX	300,000	0
180-0032	.09	Democracy Network (<i>NGO Grants & Training</i>)	United Way Int'l.	750,000	450,000
180-0033	*	Labor Activities (<i>Rapid Response</i>)	U.S. Dept. of Labor	250,000	100,000
180-0034	*	Housing Sector Assistance	Urban Institute	800,000	200,000
180-0034	*	Democracy Advocate	Urban Institute	350,000	400,000
180-0037	*	Partnerships in Health Care	Amer. Int'l. Health Alliance	0	250,000
180-0039	.01	IAA with EPA	EPA	0	0
180-0032	.05	NGO Legislation	ICNL	0	0
2.1 Total				2,850,000	1,800,000
4.1 CROSS CUTTING AND SPECIAL INITIATIVES					
180-0002	.09	English Teaching	USIA	150,000	0
180-0034	*	Housing Sector Assistance	na	150,000	100,000
180-0039	.09	Water Quality & Investment	GEF	0	0
180-0045	.01	Participant Training (<i>Technical Training in U.S.</i>)	PIET	500,000	300,000
180-0045	.02	Top-up grants (<i>Graduate Study Assistance</i>)	USIA	0	0
180-0045	.06	Ron Brown Scholarship	USIA	0	100,000
180-0249	.01	Project Support/Evaluation	na	500,000	500,000
180-XXXX		Parking Fines	na	0	0
4.1 Total				1,300,000	1,000,000
Grand Total				15,000,000	7,000,000

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ANNEX I

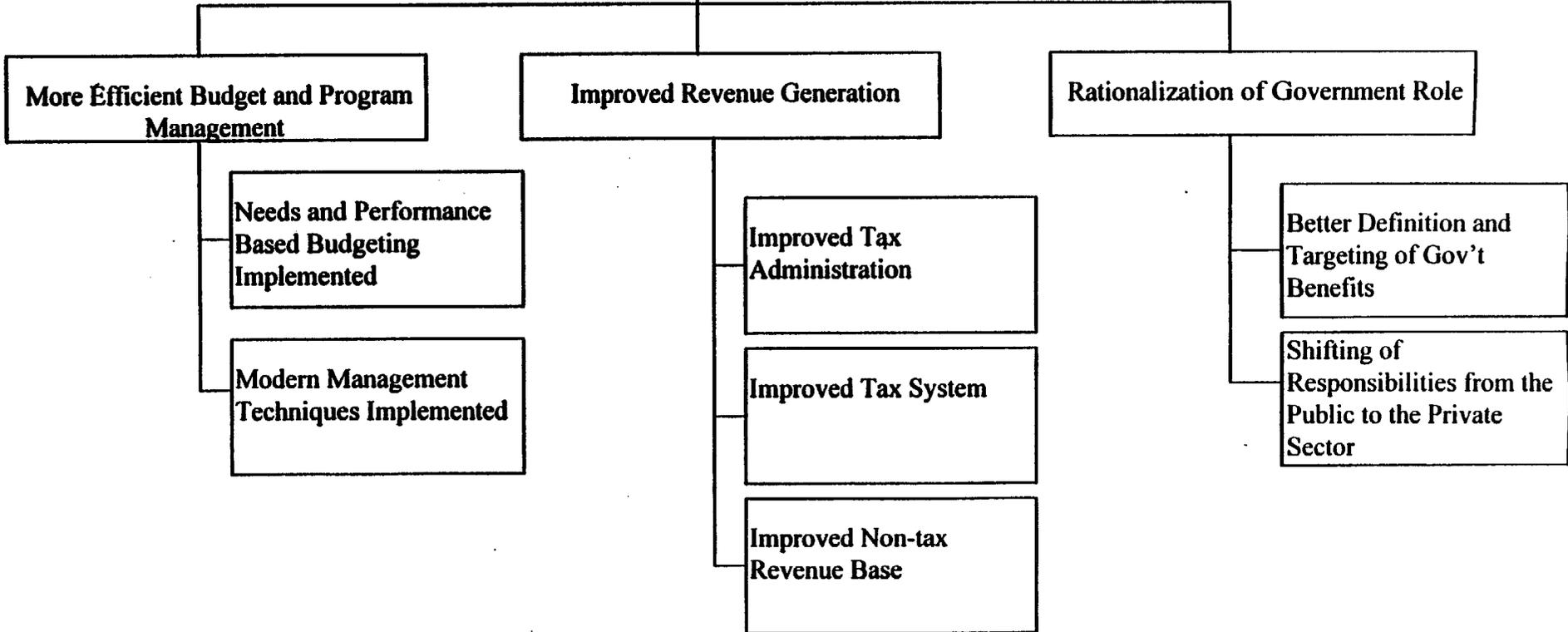
RESULTS FRAMEWORKS



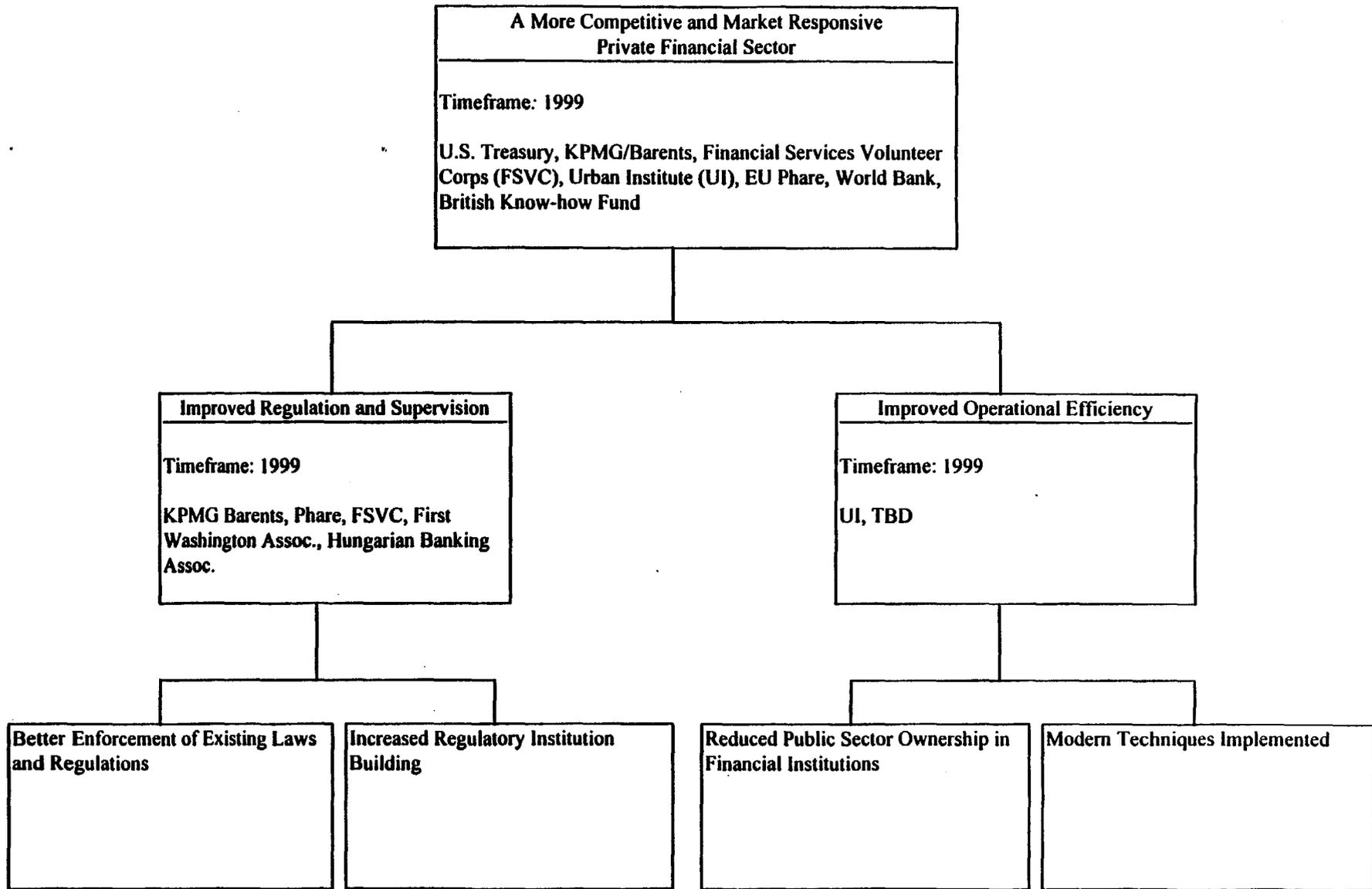
59

**Increased Soundness
of Fiscal Policies
and Fiscal Management Practices**

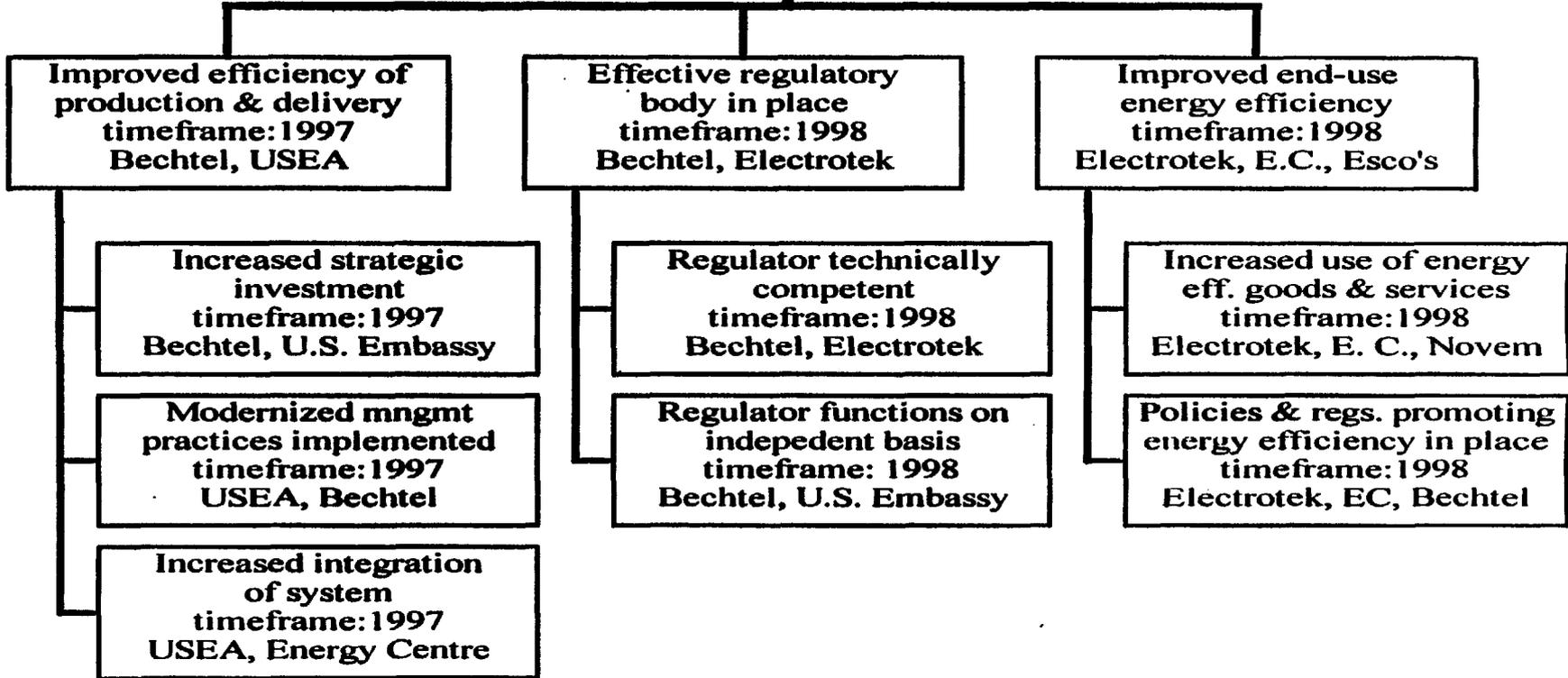
Timeframe: 1996- 1999
**World Bank, IMF, EU - Phare, U.S.
Treasury , HIID, FSVC, CIPE**



54



An economically sustainable, restructured energy sector
timeframe: 1998
Bechtel, Electrotek, USEA, Esco's
EU Energy Centre, Novem, U.S. Embassy



56

Better Informed Citizens Increase Their Participation in Decision Making at the Local Level

Timeframe: 1999

International City Management Association (ICMA); United Way International (UWI); Soros Foundation (SF); Center for Independent Journalism (CIJ); Environmental Protection Agency (EPA); Regional Environmental Center (REC); Department of Labor (DOL); Urban Institute (UI), Non-Profit Informacios Kozpont (NIOK); Research Triangle Institute (RTI); OECD; British Know-how Fund (BKHF); International Research Exchange (IREX), EU Phare, International Bank for Reconstruction and Development (IBRD); Institute for Local Government and Public Service (ILGPS)

Increased Flow of Useful Information

Timeframe: 1998

Partners: CIJ, IREX, ICMA

Local Gov't. Provides Public Access to Information

Timeframe: 1997

ICMA

Independent Media is Strengthened at the Local Level

Timeframe: 1997

CIJ, IREX

More Active and Responsive Civil Society

Timeframe: 1999

SF, UWI, NIOK

Increased NGO Capacity

Timeframe: 1998

REC, UWI

Increased NGO Cooperation

Timeframe: 1998

REC, UWI

NGOs Advocate for Issues More Effectively

Timeframe: 1999

REC, UWI

Improved Collaboration in Local Governance

Timeframe: 1999

SF, UWI, NIOK

Local Gov't, NGOs & Private Sector Cooperate to Deliver Services

Timeframe: 1998

UWI, DOL, ICMA, UI, EPA

Local Gov't, NGO's & Private Sector Establish Effective Fora for Collaborative Decisions

Timeframe: 1999

REC, UWI, ICMA,

Local Gov't. More Effective and Responsive to Citizens

Timeframe: 1999

Phare, IBRD, ICMA, UI

General Management Capacity Improved

Timeframe: 1998

OECD, BKHF, ILGPS, ICMA

Increased Inter-local Cooperation

Timeframe: 1998

ICMA, RTI

Improved National Level Framework for Efficient Local Government

Timeframe: 1998

ICMA, UI, EPA, RTI

ANNEX II

PERFORMANCE DATA TABLES

INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES

Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Increased Soundness of Fiscal Policies and Fiscal Management Practices				
INDICATOR: Consolidated central government fiscal balance				
UNIT OF MEASURE: % SOURCE: GOH Ministry of Finance Central Statistics Office. INDICATOR DESCRIPTION: Excludes NBH balance sheet support and excludes use by central government of privatization revenues; % referred to GDP COMMENTS: GDP denominator (F 6,606.3 billion) is a preliminary estimate. Revenues, F 3,280; expenditure, F 3,500; Balance, -F 220		YEAR	PLANNED	ACTUAL
		1996	-3.9	-3.3
		1997	-3.0	
		1998	-2.7	
		1999	-2.3	
Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: More efficient budget and program management				
INDICATOR: Difference in planned and actual central government deficit				
UNIT OF MEASURE: % SOURCE: GOH Ministry of Finance INDICATOR DESCRIPTION: % actual referred to planned COMMENTS: "planned" refers to maximum excess over the deficit of the budget approved by Parliament. Negative actuals indicate superior performance.		YEAR	PLANNED	ACTUAL
		1996	10	-56
		1997	8	
		1998	7	
		1999	6	
Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Needs and performance based budgeting implemented				
INDICATOR: Financing of health care services				
UNIT OF MEASURE: % SOURCE: Health Insurance Fund INDICATOR DESCRIPTION: % Health reimbursements paid for inpatient services referred outpatient and preventive services COMMENTS: Shows restructuring of health care system from high cost acute care to preventive, ambulatory, home health care and nursing homes.		YEAR	PLANNED	ACTUAL
		1996	48	48.7
		1997	47	
		1998	45	
		1999	42	

Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Modern management techniques implemented			
INDICATOR: Hospital capacity			
UNIT OF MEASURE: Number			
SOURCE: Ministry of Welfare			
INDICATOR DESCRIPTION: Active beds in the system			
COMMENTS: Indicator values are cumulative. Problem is excess capacity. Objective is to improve efficiency by using performance based reimbursement system (DRG), thereby removing incentives to utilize excess capacity in unproductive ways to increase reimbursement charges.		YEAR	PLANNED
			ACTUAL
		1996	-2,000
		1997	-6,000
		1998	-8,000
		1999	-10,000

Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved revenue generation			
INDICATOR: Tax on profits and income			
UNIT OF MEASURE: %			
SOURCE: Ministry of Finance			
INDICATOR DESCRIPTION: referred to core central government revenues, excluding SS contributions, revenues of extrabudgetary organizations and privatization income.			
COMMENTS: Adjusted description and targets. 1996 actual is preliminary estimate, based on Jan-Nov. actuals. 1995 baseline: 27.8		YEAR	PLANNED
			ACTUAL
		1996	25
		1997	27
		1998	29
		1999	30

Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved tax administration			
INDICATOR: Tax enforcement			
UNIT OF MEASURE: Number			
SOURCE: GOH tax office			
INDICATOR DESCRIPTION: Audits			
COMMENTS: Includes short reviews or "mini audits," of which there were 189,000 in 1996		YEAR	PLANNED
			ACTUAL
		1996	325,000
		1997	350,000
		1998	375,000
		1999	400,000

Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved tax system			
INDICATOR: Tax compliance			
UNIT OF MEASURE: millions			
SOURCE: GOH Tax Office			
INDICATOR DESCRIPTION: Tax returns			
COMMENTS: verification of comparability between planned and actual pending. 11.0 million actual includes "withholding" returns.		YEAR	PLANNED
		1996	9.0
		1997	9.2
		1998	9.3
		1999	9.4
Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved non-tax revenue base			
INDICATOR: non-tax revenues			
UNIT OF MEASURE: % Consolidated central government revenues			
SOURCE: Ministry of Finance			
INDICATOR DESCRIPTION: Fee income as percent of consolidated central government revenues.			
COMMENTS:		YEAR	PLANNED
		1996	0.8
		1997	1.0
		1998	2.0
		1999	4.0
Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Rationalization of Government Role			
INDICATOR: Consolidated central govt. expenditures			
UNIT OF MEASURE: % GDP			
SOURCE: Ministry of Finance			
INDICATOR DESCRIPTION: Fiscal spending			
COMMENTS: <u>Includes</u> spending by the two SS funds and extrabudgetary institutions.		YEAR	PLANNED
		1996	49.0
		1997	48.0
		1998	46.5
		1999	45.0

Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Better definition and targeting of government benefits			
INDICATOR: Subsidies			
UNIT OF MEASURE: % SOURCE: Ministry of Finance INDICATOR DESCRIPTION: referred to consolidated central government expenditure	YEAR	PLANNED	ACTUAL
COMMENTS:	1996	9.5	12.2
	1997	8.5	
	1998	7.5	
	1999	6.0	
Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Better definition and targeting of government benefits			
INDICATOR: Comprehensive pension reform			
UNIT OF MEASURE: achieved: yes, no, or % progress SOURCE: GOH INDICATOR DESCRIPTION: benchmark	YEAR	PLANNED	ACTUAL
COMMENTS: Framework substantially accepted by GOH inter-ministerial working group; opposed by Pension Fund self government authorities; not yet presented to Parliament.	1996	framework	50
	1997	pilot	
	1998	formal	
	1999	functioning	
Strategic Objective : Increased Soundness of Fiscal Policies and Fiscal Management Practices			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Shifting of responsibilities from public to private sector			
INDICATOR: Private voluntary pension contributions			
UNIT OF MEASURE: % public PAYG scheme SOURCE: Pension Fund Supervision INDICATOR DESCRIPTION: Contributions to second and third legs of GOH comprehensive reform proposal	YEAR	PLANNED	ACTUAL
COMMENTS: All pension contributions are tax sheltered.	1996	nil	nil
	1997	1	
	1998	4	
	1999	8	

Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Access to Commercial Banking Services			
INDICATOR: Targeted firms which have received loans			
UNIT OF MEASURE: % SOURCE: Lyles 1996 Survey INDICATOR DESCRIPTION: Proportion of surveyed SME firms which affirmed that they had received bank loans. Baseline is 1996.	YEAR	PLANNED	ACTUAL
	1996		27
	1997	29	
	1998	31	
	1999	33	

Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Access to Commercial Banking Services			
INDICATOR: Banking System Credit to Small Enterprises			
UNIT OF MEASURE: % of Total Enterprise Credit SOURCE: National Bank of Hungary INDICATOR DESCRIPTION: Stock of Reported Small Enterprise Credit as a proportion of total credit COMMENTS: 1995 Baseline: 7.6	YEAR	PLANNED	ACTUAL
	1996		6.7
	1997	8	
	1998	9	
	1999	10	

Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved Presentation of SME Financial Information to Banks			
INDICATOR: Targeted Firms with Business Plans			
UNIT OF MEASURE: Percentage SOURCE: Lyles 1996 SME Survey INDICATOR DESCRIPTION: Proportion of surveyed firms responding positively when asked if they had a business plan. Baseline is 1996 COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		45
	1997	48	
	1998	55	
	1999	60	

IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES

Strategic Objective : Improved Operations of Small and Medium Sized Enterprises				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Improved Operations of Small and Medium Sized Enterprises				
INDICATOR: Exports to Sales for SMEs				
UNIT OF MEASURE: %		YEAR	PLANNED	ACTUAL
SOURCE: Lyles SME Survey				
INDICATOR DESCRIPTION: Mean exports for 1995 were divided by mean sales				
COMMENTS: Baseline: Reported 9/96 on yr. '95. actual performance: 8.2. Survey will be re-administered in 1997 to capture 1996 information				
		1996	9	
		1997	11	
		1998	13	
		1999	15	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Improved Operations of Small and Medium Sized Enterprises				
INDICATOR: Profits After Taxes to Sales for SMEs				
UNIT OF MEASURE: % of sales		YEAR	PLANNED	ACTUAL
SOURCE: Lyles 1993 & 1996 SME Surveys				
INDICATOR DESCRIPTION: Mean after tax profit divided by mean sales for respondents in sample. Baseline 1993: 4.37. Reported 1996 on yr. '95 actual performance: 6.8. Survey will be re-administered in 1997 to capture 1996 data				
		1996	7.1	
		1997	7.4	
		1998	7.7	
		1999	8.0	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Improved Operations of Small and Medium Sized Enterprises				
INDICATOR: Reported SME Contribution to Sector GDP Based on Tax Returns				
UNIT OF MEASURE: % of total sector contribution		YEAR	PLANNED	ACTUAL
SOURCE: SME Contribution to Industry Sector of GDP based on data submitted to tax office.				
INDICATOR DESCRIPTION: 1995 Baseline: 49.3.				
		1996	50.3	
		1997	50.3	
		1998	53.3	
		1999	58.5	

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Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved Presentation of SME Financial Information to Banks			
INDICATOR: Targeted firms which have received loans			
UNIT OF MEASURE: % SOURCE: Lyles 1996 Survey INDICATOR DESCRIPTION: Proportion of surveyed SME firms which replied that they had received bank loans COMMENTS: Baseline is 1996.	YEAR	PLANNED	ACTUAL
	1996		27
	1997	29	
	1998	31	
	1999	33	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved Review of SME Financial Information by Banks			
INDICATOR: OTP SME Loans in Default			
UNIT OF MEASURE: % of SME Loans in Default to Total SME Portfolio SOURCE: OTP Bank INDICATOR DESCRIPTION: Percentage of SME Loans in Default as a Percentage of OTP's SME Portfolio COMMENTS: Targets set by OTP Bank. Baseline is 1996.	YEAR	PLANNED	ACTUAL
	1996		21.2
	1997	20.5	
	1998	18.5	
	1999	17	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Amount of Loans Extended by OTP Bank to SMEs			
INDICATOR: Amount of Loans Extended by OTP Bank to SMEs			
UNIT OF MEASURE: millions of HUF SOURCE: OTP Bank INDICATOR DESCRIPTION: Current OTP SME Portfolio in millions of HUF COMMENTS: 1995 Baseline: 75,000	YEAR	PLANNED	ACTUAL
	1996		91,478
	1997	120,000	
	1998	150,000	
	1999	170,000	

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Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved Access to Market and Technology Information			
INDICATOR: Users of Sponsored Data Base Facilities			
UNIT OF MEASURE: Number SOURCE: Reports from Implementing Partners INDICATOR DESCRIPTION: COMMENTS: This number will equal number of SME users of Internet in Local Enterprise Agencies, plus users of data base facilities in USAID assisted organizations. 1996 is baseline.	YEAR	PLANNED	ACTUAL
	1996	0	0
	1997	1,000	
	1998	4,200	
	1999	20,300	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Access to Internet Services			
INDICATOR: Targeted Firms Which Have Access to Internet			
UNIT OF MEASURE: % of surveyed SMEs SOURCE: Lyles 1996 Survey INDICATOR DESCRIPTION: Percentage of SMEs in Lyles Survey responding positively when asked if they have access to Internet COMMENTS: 1996 is baseline.	YEAR	PLANNED	ACTUAL
	1996		25
	1997	30	
	1998	35	
	1999	40	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Access to Database Facilities			
INDICATOR: Users of information in university resource centers			
UNIT OF MEASURE: Number of users SOURCE: Implementing partners INDICATOR DESCRIPTION: University resource centers have specialized database information, Hungarian SME case studies COMMENTS: 1996 is baseline.	YEAR	PLANNED	ACTUAL
	1996	0	0
	1997	500	
	1998	1,000	
	1999	8,000	

Strategic Objective : Improved Operations of Small and Medium Sized Enterprises				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Increased Access to Database Facilities				
INDICATOR: Users of Agriculture Information System				
UNIT OF MEASURE: Number of Users SOURCE: Reports from Implementing Partners INDICATOR DESCRIPTION: Users of agricultural databases in micro regions assisted by implementing partners COMMENTS: 1996 is baseline.		YEAR	PLANNED	ACTUAL
		1996	0	0
		1997	570	
		1998	2,150	
		1999	3,300	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Improved Business Systems and Practices Developed and in Place				
INDICATOR: Targeted Firms with Marketing Managers				
UNIT OF MEASURE: Percentage of surveyed firms SOURCE: Lyles 1996 SME Survey INDICATOR DESCRIPTION: Percentage of firms responding positively when asked if they had a marketing manager COMMENTS: 1996 is baseline.		YEAR	PLANNED	ACTUAL
		1996		21.9
		1997	24	
		1998	26	
		1999	29	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises				
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Improved Business Systems and Practices Developed and in Place				
INDICATOR: Targeted Firms with Access to Computerized Accounting Systems				
UNIT OF MEASURE: Percentage of surveyed firms SOURCE: Lyles 1996 Survey INDICATOR DESCRIPTION: Percentage of firms responding positively when asked if they had computerized accounting systems. COMMENTS: 1996 is baseline.		YEAR	PLANNED	ACTUAL
		1996		72
		1997	72	
		1998	72	
		1999	72	

Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved Business Systems and Practices Developed and in Place			
INDICATOR: Targeted Firms with Business Plans			
UNIT OF MEASURE: Percentage of surveyed firms SOURCE: Lyles 1996 SME Survey INDICATOR DESCRIPTION: Proportion of firms responding positively when asked if they had a business plan COMMENTS: 1996 is baseline.	YEAR	PLANNED	ACTUAL
	1996		45
	1997	48	
	1998	55	
	1999	60	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Local Support Organizations Provide Increased Services and Disseminate Inform.			
INDICATOR: Use of local consultants by SMEs			
UNIT OF MEASURE: Frequency of use on scale of 1 (no use) to 5 (frequent use) SOURCE: Lyles 1996 Survey INDICATOR DESCRIPTION: Surveyed SMEs asked to rate use on scale of 1 (no use) to 5 (frequent use) COMMENTS: 1996 is baseline.	YEAR	PLANNED	ACTUAL
	1996		1.87
	1997	2.0	
	1998	2.5	
	1999	3.0	
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: National Education System Institutionalizes Business and Management Education			
INDICATOR: Number of MBA Programs offered in Hungary			
UNIT OF MEASURE: Number SOURCE: Reports by Implementing Partners INDICATOR DESCRIPTION: Number of MBA programs COMMENTS:	YEAR	PLANNED	ACTUAL
	1996	7	8
	1997	7	
	1998	7	
	1999	7	

Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: National Education System Institutionalizes Business and Management Education			
INDICATOR: Students studying Total Quality Management			
UNIT OF MEASURE: Number			
SOURCE: Reports from Implementing Partners			
INDICATOR DESCRIPTION: Number of students who enrolled in courses focusing on Total Quality Management			
COMMENTS:		YEAR	PLANNED
		1996	7,000
		1997	9,000
		1998	11,000
		1999	13,500
Strategic Objective : Improved Operations of Small and Medium Sized Enterprises			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: More Rational Tax Structure for SMEs			
INDICATOR: Taxable Business Profits			
UNIT OF MEASURE: %			
SOURCE: Lyles 1996 Target			
INDICATOR DESCRIPTION: Profits Before Taxes as a Percentage of Sales			
COMMENTS: Baseline '95 reported 9/96: 35.8.		YEAR	PLANNED
		1996	37
		1997	38
		1998	39
		1999	40

A MORE COMPETITIVE AND MARKET-RESPONSIVE PRIVATE FINANCIAL SECTOR

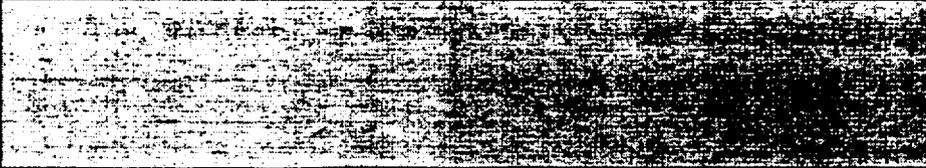
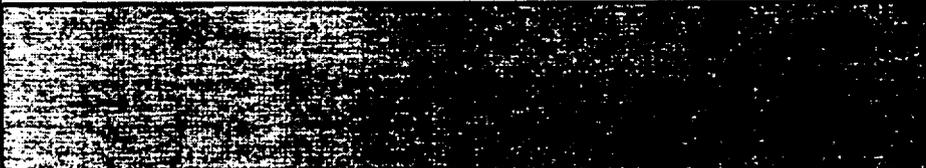
Strategic Objective : A More Competitive And Market-Responsive Private Financial Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: A More Competitive And Market-Responsive Private Financial Sector			
INDICATOR: Financial sector assets			
UNIT OF MEASURE: % SOURCE: National Bank; Monthly Report; Budapest Stock Exchange. INDICATOR DESCRIPTION: The higher the financial sector "assets", that is total bank assets plus insurance premiums plus the Stock Exchange's capitalization, the better. Assets reported as a % of GDP COMMENTS: The indicator shows the BSE's dramatic advancement in 1996. Total premiums also total banking assets increased,. Preliminary Estimate.	YEAR	PLANNED	ACTUAL
	1996	100	112%
	1997	105	
	1998	110	
	1999	120	
Strategic Objective : A More Competitive And Market-Responsive Private Financial Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: A More Competitive And Market-Responsive Private Financial Sector			
INDICATOR: Interest rate spread on enterprise accounts			
UNIT OF MEASURE: % SOURCE: National Bank of Hungary, Monthly Report INDICATOR DESCRIPTION: Gap between weighted average interest rates on loans and deposits of the enterprise sector, with maturity up to one year. The gap is expected to decline as bank efficiency improves. COMMENTS: The latest data, of October 1996, shows marked improvement over January 1996, when the gap was 7.6 %.	YEAR	PLANNED	ACTUAL
	1996	6.0	5.4
	1997	5.0	
	1998	4.5	
	1999	4.0	
Strategic Objective : A More Competitive And Market-Responsive Private Financial Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: A More Competitive And Market-Responsive Private Financial Sector			
INDICATOR: Firms listed on the Budapest Stock Exchange			
UNIT OF MEASURE: number SOURCE: Budapest Stock Exchange INDICATOR DESCRIPTION: If more companies are listed on the BSE this means that more companies are meeting strict financial reporting requirements and take advantage of relatively cheap new capital increase possibilities. In 1996 there were 5 new entries into the BSE, but 3 companies left. COMMENTS:	YEAR	PLANNED	ACTUAL
	1996	46	45
	1997	60	
	1998	80	
	1999	100	

Strategic Objective : A More Competitive And Market-Responsive Private Financial Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved Regulation And Supervision			
INDICATOR: On-site bank examinations			
UNIT OF MEASURE: annual number SOURCE: Financial and Capital Market Supervision INDICATOR DESCRIPTION: Growth in the number of comprehensive on-site bank examinations correlates with maturity of the supervisory agency, and increased sophistication and security of the banking sector. COMMENTS: According to KPMG, although the SBS had a total of 21 examinations, only 16 qualified as internationally acceptable.	YEAR	PLANNED	ACTUAL
	1996	15	16
	1997	18	
	1998	20	
	1999	22	
Strategic Objective : A More Competitive And Market-Responsive Private Financial Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Regulatory Institution Building			
INDICATOR: Regulatory efforts			
UNIT OF MEASURE: Expert opinion (1-5) SOURCE: group of experts INDICATOR DESCRIPTION: legal, practical enforcement, independent and professional measurements COMMENTS: Panel of experts drawn from U.S. Treasury Advisors, FSVC Representatives, KPMG, and others.	YEAR	PLANNED	ACTUAL
	1996	2	3
	1997	3.5	
	1998	4.0	
	1999	4.5	
Strategic Objective : A More Competitive And Market-Responsive Private Financial Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Reduced Public Sector Ownership			
INDICATOR: Banks Privatized			
UNIT OF MEASURE: Number SOURCE: Ministry of Finance, GOH Privatization Agency INDICATOR DESCRIPTION: the number of Hungarian state-owned banks restructured and privatized COMMENTS: The GOH has committed to the privatization of four additional banks in 1997-1999. Accordingly, target for 1999 has been changed from 8 to 10.	YEAR	PLANNED	ACTUAL
	1996	5	6
	1997	8	
	1998	9	
	1999	10	

AN ECONOMICALLY SUSTAINABLE, RESTRUCTURED ENERGY SECTOR

Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: An Economically Sustainable, Restructured Energy Sector			
INDICATOR: Return of investment in power sector			
UNIT OF MEASURE: % SOURCE: Hungarian Energy Office INDICATOR DESCRIPTION: Combined return on investment for power plants and distribution companies in privatized hands COMMENTS: Influenced by GOH delaying the promised price increases	YEAR	PLANNED	ACTUAL
	1996	1	losses
	1997	8	
	1998	12	
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: An Economically Sustainable, Restructured Energy Sector			
INDICATOR: Adoption of legislation on regulation on restricting ownership concentration			
UNIT OF MEASURE: yes/no SOURCE: Hungarian Energy Office INDICATOR DESCRIPTION: COMMENTS: Maintaining a de-concentrated ownership structure is an important part of maintaining a competitive structure.	YEAR	PLANNED	ACTUAL
	1995		state-owned
	1996		no
	1997	adopted	
1998			
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: An Economically Sustainable, Restructured Energy Sector			
INDICATOR: Consumer satisfaction with electricity prices and tariffs			
UNIT OF MEASURE: percentage SOURCE: Survey conducted by the regional electricity distribution companies, coordinated by the Hungarian Energy Office INDICATOR DESCRIPTION: In a questionnaire customers were asked to rate their satisfaction with prices and tariffs on a 1-5 scale. COMMENTS: Forty percent is similar to Western figures.	YEAR	PLANNED	ACTUAL
	1996		39%
	1997	45%	
	1998	50%	

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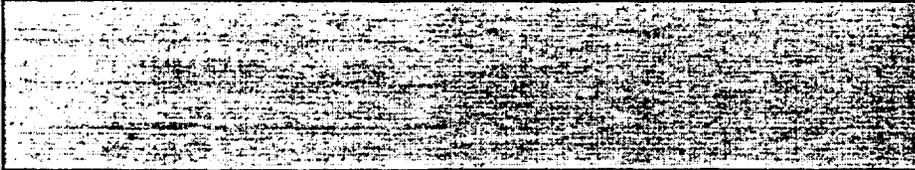
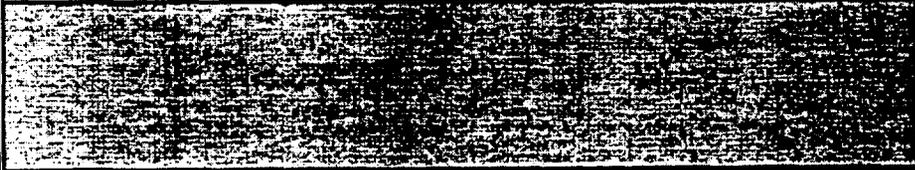
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Strategic Private Investment			
INDICATOR: Power sector assets in private hands			
UNIT OF MEASURE: % SOURCE: Hungarian Energy Office INDICATOR DESCRIPTION: "Private hands" includes foreign state-owned companies COMMENTS:	YEAR	PLANNED	ACTUAL
	1996	40 %	36 %
	1997	60 %	
	1998	90 %	
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Modernized Management Practices Implemented			
INDICATOR: Least Cost planning implemented at MVM Rt.			
UNIT OF MEASURE: Yes/No SOURCE: Hungarian Electricity Works (MVM Rt.) INDICATOR DESCRIPTION: The Hungarian Electricity Works uses LCP methods in compiling its demand forecasts. COMMENTS:	YEAR	PLANNED	ACTUAL
	1996	in place	in place
	1997		
	1998		
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Integration of System			
INDICATOR: CENTREL (CEE grid) member of UCPTE (EU grid)			
UNIT OF MEASURE: recognition of partnership SOURCE: Hungarian Electricity Works (MVM Rt.) INDICATOR DESCRIPTION: CENTREL grid consists of the interconnected systems of Hungary, Slovakia, Czech Republic and Poland COMMENTS: Work with CENTREL will continue under the regional SO on remaining legal and regulatory issues. ** Full Partnership	YEAR	PLANNED	ACTUAL
	1996	trial period	trial period
	1997	**	
	1998		

Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Effective Regulatory Body in Place			
INDICATOR: Competitive bidding process for new capacity adopted by GOH			
UNIT OF MEASURE: Formal adoption of policy			
SOURCE: Hungarian Energy Office			
INDICATOR DESCRIPTION:			
COMMENTS: Provision for new capacity is expected to be bid for by 1999. * final version adopted		YEAR	PLANNED
		1996	draft
		1997	*
		1998	
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Regulator technically capable			
INDICATOR: Price regulation issued by HEO without Ministry changes			
UNIT OF MEASURE: Yes/No			
SOURCE: Hungarian Ministry of Industry, Trade and Tourism			
INDICATOR DESCRIPTION: The Ministry of Industry, Trade and Tourism can exercise final decision-making power on prices			
COMMENTS: The Ministry intervened in 12/96 to delay the HEO recommended price adjustment.		YEAR	PLANNED
		1996	yes
		1997	yes
		1998	
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Regulator technically capable			
INDICATOR: Time required for regulator to issue electricity licenses.			
UNIT OF MEASURE: months/days			
SOURCE: Hungarian Energy Office			
INDICATOR DESCRIPTION: Time judged between application submission and issuance. Total licenses per year = 10.			
COMMENTS: * Baseline: six months or more		YEAR	PLANNED
		1996	90 days
		1997	60 days

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Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: HEO Director appointed for fixed term			
INDICATOR: Regulator technically capable			
UNIT OF MEASURE: Yes/No SOURCE: Hungarian Ministry of Industry, Trade and Tourism INDICATOR DESCRIPTION: COMMENTS: * Baseline: appointed & fired at Min. discretion	YEAR	PLANNED	ACTUAL
	1996		no
	1997	yes	
	1998		
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved End Use Efficiency			
INDICATOR: Projects in Energy Efficiency Revolving Credit Fund			
UNIT OF MEASURE: Number SOURCE: Hungarian Energy Office INDICATOR DESCRIPTION: The HEO oversees several Energy Efficiency Credit funds. COMMENTS: Interest in the fund is a proxy indicator for more activity in the energy efficiency sector and progress toward efficiency	YEAR	PLANNED	ACTUAL
	1996		81
	1997	100	
	1998		
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Improved End Use Efficiency			
INDICATOR: Firms actively involved in energy efficiency market			
UNIT OF MEASURE: Number SOURCE: Hungary/EU Energy Centre INDICATOR DESCRIPTION: Includes consulting firms and energy efficiency equipment manufacturers COMMENTS:	YEAR	PLANNED	ACTUAL
	1996	PLANNED?	65
	1997	122	
	1998	150	

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Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: More Commercially-viable Energy Efficiency Projects Implemented			
INDICATOR: Targeted pubic institutions with financed energy efficiency projects			
UNIT OF MEASURE: Number			
SOURCE: Electrotek Concepts Inc.			
INDICATOR DESCRIPTION: "Targeted" reflects that this is an activity level indicator.			
COMMENTS: * no baseline available		YEAR	PLANNED
		1996	<i>PLANNED?</i>
		1997	10
		1998	25
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: More Commercially-viable Energy Efficiency Projects Implemented			
INDICATOR: Energy efficiency projects financed in targeted public institutions			
UNIT OF MEASURE: Number			
SOURCE: Electrotek Concepts Inc.			
INDICATOR DESCRIPTION: "Targeted" reflects that this is an activity level indicator.			
COMMENTS:		YEAR	PLANNED
		1996	
		1997	15
		1998	35
Strategic Objective : An Economically Sustainable, Restructured Energy Sector			
APPROVED: 8/23/96		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Policies and Regulations Promoting Energy Efficiency in Place			
INDICATOR: HEO issues guidelines on demand side management (DSM) to distribution co.s			
UNIT OF MEASURE: Yes/No			
SOURCE: Hungarian Energy Office			
INDICATOR DESCRIPTION: Distribution companies have to annually submit a description of their DSM activities according to HEO guidelines.			
COMMENTS: Economic Analysis: HEO guidelines should include how to determine cost shavings of DSM.* issue w/o economic. analysis. ** issue with economic analysis		YEAR	PLANNED
		1995	not issued
		1996	draft issued
		1997	*
		1998	**

Strategic Objective : An Economically Sustainable, Restructured Energy Sector

APPROVED: 8/23/96

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: Policies and Regulations Promoting Energy Efficiency in Place

INDICATOR: Active DSM programs in place at distribution co.s

UNIT OF MEASURE: Number

SOURCE: Hungarian Energy Office

INDICATOR DESCRIPTION: "Active" means that the DSM programs does more than simple information dissemination.

COMMENTS:

YEAR	PLANNED	ACTUAL
1995		none
1996	<i>PLANNED?</i>	15
1997	30	
1998	50	

Strategic Objective : An Economically Sustainable, Restructured Energy Sector

APPROVED: 8/23/96

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: Policies and Regulations Promoting Energy Efficiency in Place

INDICATOR: Targeted municipalities tracking energy costs

UNIT OF MEASURE: Number

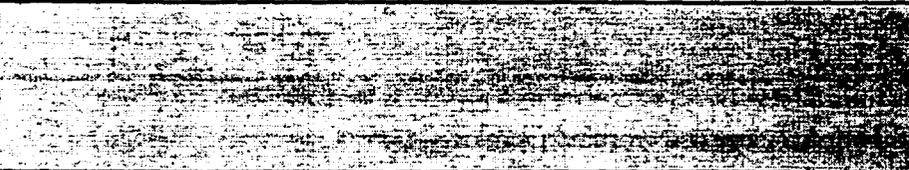
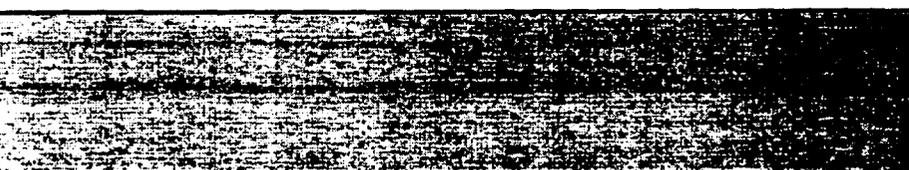
SOURCE: EGI, Engineering Inc.

INDICATOR DESCRIPTION: "Targeted" reflects that this is an activity level indicator.

COMMENTS:

YEAR	PLANNED	ACTUAL
1996		0
1997	5	
1998	15	

**BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION-MAKING
AT THE LOCAL LEVEL**

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level				
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Better Informed Citizens Increase Their Participation in Decision- Making at the Local Level				
INDICATOR: Citizen satisfaction with local government				
UNIT OF MEASURE: % SOURCE: Annual survey conducted by Political Studies Institute Foundation INDICATOR DESCRIPTION: 100% = highly satisfied; 67% = quite satisfied; 33% = slightly satisfied; 0% = not at all satisfied COMMENTS: Baseline - 1995 - 37%		YEAR	PLANNED	ACTUAL
		1996		38
		1997	40	
		1998	42	
		1999	45	
Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level				
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Better Informed Citizens Increase Their Participation in Decision-Making at the Local Level				
INDICATOR: Citizen rating of opportunities to participate in decision making at local level				
UNIT OF MEASURE: Scale of 1-100 SOURCE: Annual survey conducted by Political Studies Institute Foundation INDICATOR DESCRIPTION: COMMENTS: Baseline - 1995 - 39		YEAR	PLANNED	ACTUAL
		1996		41
		1997	44	
		1998	45	
		1999	47	
Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level				
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Better Informed Citizens Increase Their Participation in Decision Making at the Local Level				
INDICATOR: Citizen rating of impact of input				
UNIT OF MEASURE: Scale of 1-100 SOURCE: Annual survey by Political Studies Institute Foundation INDICATOR DESCRIPTION: COMMENTS: Baseline - 1995 - 31		YEAR	PLANNED	ACTUAL
		1996		35
		1997	38	
		1998	40	
		1999	43	

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Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level			
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Flow of Useful Information			
INDICATOR: Citizen awareness of local government issues and activities			
UNIT OF MEASURE: % SOURCE: Annual survey conducted by Political Studies Institute Foundation INDICATOR DESCRIPTION: 100% = highly informed; 67% = quite informed; 33% = slightly informed; 0% = not at all informed			
COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		24
	1997	35	
	1998	47	
	1999	40	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level			
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Independent Media is Strengthened at the Local Level			
INDICATOR: Airtime devoted to local news by local television stations			
UNIT OF MEASURE: Average hours per week SOURCE: Center for Independent Journalism INDICATOR DESCRIPTION:			
COMMENTS:	YEAR	PLANNED	ACTUAL
	1996		5.6
	1997	6.2	
	1998	7.0	
	1999	7.0	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level			
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: More Active and Responsive Civil Society			
INDICATOR: Expenditures of NGOs in civil sector			
UNIT OF MEASURE: % of GDP SOURCE: Central Statistics Office INDICATOR DESCRIPTION:			
COMMENTS: Sector information is provided by CSO with 2 year lag	YEAR	PLANNED	ACTUAL
	1994		2.9
	1995	3	
	1996	4	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level				
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Increased NGO Capacity				
INDICATOR: Financial contributions to NGOs from non-governmental sources				
UNIT OF MEASURE: % of total revenues SOURCE: Central Statistics Office INDICATOR DESCRIPTION: COMMENTS: Sector information is provided by CSO with 2 year lag		YEAR	PLANNED	ACTUAL
		1994		14
		1995	20	
		1996	22	
Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level				
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Increased NGO Capacity				
INDICATOR: NGO enabling legislation				
UNIT OF MEASURE: Not passed/Passed SOURCE: Parliament INDICATOR DESCRIPTION: COMMENTS: Baseline - Drafting of NGO legislation began in 1995		YEAR	PLANNED	ACTUAL
		1996	Passed	Not Passed
		1997	Passed	
		1998	Passed	
		1999	Passed	
Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level				
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary		
RESULT NAME: Increased NGO Cooperation				
INDICATOR: NGO support network established				
UNIT OF MEASURE: Number of satellite centers, telecottages SOURCE: Democracy Networks Hungary INDICATOR DESCRIPTION: COMMENTS: Baseline - 1990 - 0		YEAR	PLANNED	ACTUAL
		1996	5	6
		1997	10	
		1998	15	
		1999	20	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level

APPROVED:

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: NGOs Advocate for Issues More Effectively

INDICATOR: NGOs engaged in advocacy

UNIT OF MEASURE: Number

SOURCE: Central Statistics Office

INDICATOR DESCRIPTION:

COMMENTS: Baseline 1993 - 5061
Sector information is provided by CSO with 2 year lag

YEAR	PLANNED	ACTUAL
1994		6329
1995	7,500	
1996	10,000	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level

APPROVED:

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: Local Government, NGOs and Private Sector Establish Effective Collaborative Decision Making Fora

INDICATOR: Municipalities with institutionalized mechanisms for collaboration with NGOs

UNIT OF MEASURE: Number of civil ombudsmen, etc.

SOURCE: Democracy Networks Hungary

INDICATOR DESCRIPTION:

COMMENTS: Baseline - 1990 - 0

YEAR	PLANNED	ACTUAL
1996	2	3
1997	4	
1998	7	
1999	10	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level

APPROVED:

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: Local Governments, NGOs and Private Sector Cooperate to Deliver Services

INDICATOR: Cross-sector collaborative committees formed to solve problems in targeted communities

UNIT OF MEASURE: Number

SOURCE: Department of Labor

INDICATOR DESCRIPTION:

COMMENTS: Baseline - 1990 - 0

YEAR	PLANNED	ACTUAL
1996		16
1997	25	
1998	30	
1999	30	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level			
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: General Management Capacity of Local Governments is Improved			
INDICATOR: Targeted municipalities use budgets as management tools			
UNIT OF MEASURE: Number SOURCE: Urban Institute/ ICMA INDICATOR DESCRIPTION: COMMENTS: Baseline - 1990 - 0	YEAR	PLANNED	ACTUAL
	1996	1	1
	1997		
	1998		
	1999	40	
Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level			
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Inter-local Cooperation			
INDICATOR: Cooperative agreements between municipalities			
UNIT OF MEASURE: Number SOURCE: ICMA INDICATOR DESCRIPTION: COMMENTS: Baseline - 1990 - 0	YEAR	PLANNED	ACTUAL
	1996		4
	1997	8	
	1998	12	
	1999	16	
Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level			
APPROVED:		COUNTRY/ORGANIZATION: USAID Hungary	
RESULT NAME: Increased Inter-local Cooperation			
INDICATOR: Municipalities involved in cooperation			
UNIT OF MEASURE: Number SOURCE: ICMA INDICATOR DESCRIPTION: COMMENTS: Baseline 1990 - 0	YEAR	PLANNED	ACTUAL
	1996		12
	1997	24	
	1998	36	
	1999	50	

Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level

APPROVED:

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: Improved National Level Framework for Efficient Local Government

INDICATOR: Association of municipal finance officers created

UNIT OF MEASURE: Yes/No

SOURCE: Urban Institute

INDICATOR DESCRIPTION:

COMMENTS: Baseline - 1990 - N0

YEAR	PLANNED	ACTUAL
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1996	No	No
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1997	No	
------	----	--

1998	No	
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1999	Yes	
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Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level

APPROVED:

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: Improved National Level Framework for Efficient Local Government

INDICATOR: Own source revenue of Council of Local Government Associations

UNIT OF MEASURE: % of expenditures

SOURCE: Council

INDICATOR DESCRIPTION:

COMMENTS:

YEAR	PLANNED	ACTUAL
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1996		40
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1997	45	
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1998	55	
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1999	65	
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Strategic Objective : Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level

APPROVED:

COUNTRY/ORGANIZATION: USAID Hungary

RESULT NAME: Improved National Level Framework for Efficient Local Government

INDICATOR: Council of Local Government Associations recognized by GOH as official representative of municipalities

UNIT OF MEASURE: Yes/No

SOURCE: GOH Office for Modernization of Public Administration

INDICATOR DESCRIPTION:

COMMENTS:

YEAR	PLANNED	ACTUAL
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1996	No	No
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1997	No	
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1998	No	
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1999	Yes	
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ANNEX III

WORKFORCE RESOURCES

Totals by Staffing Category - FY 1997 Ceiling

Staff	Support Offices										Grand Total Staff					
	Strategic Objective 1: (FTE)	Strategic Objective 2: (FTE)	Strategic Objective 3: (FTE)	Special Objective 1: (FTE)	Special Objective 2: (FTE)	Special Objective 3: (FTE)	Subtotal S.O. Staff	Mission Mgt.	Con-troller	EXO		Con-tracts	Legal	Program	Other	Subtotal Support Staff
USDH	0	0	0	0	0	0	0	0	1	0	1	0	0	0	3	3
USPSC (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
USPSC (Program Funded)	1	2	1	1	2	0	5	0	0	0	0	0	1	0	1	6
Total USPSCs	1	2	1	1	2	0	5	0	0	0	0	0	3	0	5	10
FSN/TCN Direct Hire (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FSN/TCN Non Direct Hire (OE/TF)	0	1	0	1	0	0	2	1	0	0	10	0	1	0	12	14
FSN/TCN Non Direct Hire (Program Funded)	1	0	0	0	1	0	1	0	0	0	0	0	0	0	0	1
Total FSN/TCN Non Direct Hire	1	1	0	1	1	0	3	1	0	0	10	0	1	0	12	15
Total FSN/TCN (OE/TF)	0	1	0	1	0	0	2	1	0	0	10	0	1	0	12	14
Total FSN/TCN (Program Funded)	1	0	0	0	1	0	1	0	0	0	0	0	0	0	0	1
Total FSN/TCN Staff	1	1	0	1	1	0	3	1	0	0	10	0	1	0	12	15
Total Other (RSSA, PASA, IPA) (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other (RSSA, PASA, IPA) (Program Funded)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total FSN/TCN Staff	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total OE/TF Staff (includes USDH)	0	1	0	1	0	0	2	2	0	0	13	0	4	0	19	21
Total Program Funded Staff	1	2	1	1	2	0	8	0	0	0	0	0	1	0	1	1
Grand Total All Staff	1	3	1	2	2	0	8	2	0	0	13	0	5	0	20	28

Notes:

* TAACs and Fellows count against G ceilings only and thus are "below the line" for field operating units. Service in the capacity of TAACs should be reported as TAACs regardless of the hiring mechanism. They should not be reported under PSCs, PASAs, RSSAs, etc.

The data in the table reflects positions, NOT, on-board strength or FTEs. You can divide the positions of people working on more than one SO, but do not subdivide in units of less than a half (0.5).

Provide separate tables for FY 97, 98, and 99.

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Workforce Resources
FY 1997 Position Allocation of Staff Ceilings
Organization: USAID/HUNGARY

Staff	Support Offices										Grand Total Staff					
	INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES	IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES	A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR	AN ECON. SUSTAINABLE RESTRUCTURE D ENERGY SECTOR	BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL	CROSS CUTTING AND SPECIAL INITIATIVES	Subtotal S.O. Staff	Mission Mgt.	Con-troller	EXO		Con-tracts	Legal	Program	Other	Subtotal Support Staff
USDH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	1.0	0.0	3.0	3.0
USPSC (OE/TF)																
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
USPSC (OE/TF)																
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	0.0	4.0	4.0
USPSC (Program Funded)																
Locally Recruited	0.5	1.5	1.0	0.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0	5.7
FSN/TCN Direct Hire (OE/TF)																
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Direct Hire (OE/TF)																
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (OE/TF)																
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (OE/TF)																
Locally Recruited	0.0	1.0	0.0	1.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	1.0	0.0	12.0	14.0
FSN/TCN Non-Direct Hire (Program Funded)																
Locally Recruited	0.5	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Other (RSSA, PASA, IPA) (OE/TF Funded)																
Other (RSSA, PASA, IPA) (Program Funded)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Staff by Objective	1.0	2.5	1.0	1.5	2.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	5.0	0.0	20.0	28.0
TAACs*																
Fellows*																

Totals by Staffing Category - FY 1998 Ceiling

Staff								Support Offices							Subtotal Support Staff	Grand Total Staff
	INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES	IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES	A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR	AN ECON. SUSTAINABLE RESTRUCTURED ENERGY SECTOR	BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL	CROSS CUTTING AND SPECIAL INITIATIVES	Subtotal S.O. Staff	Mission Mgt.	Controller	EXO	Contracts	Legal	Program	Other		
USDH	0	0	0	0	0	0	0	1	0	1	0	0	1	0	3	3
USPSC (OE/TF)	0	0	0	0	0	0	0	0	0	2	0	0	2	0	4	4
USPSC (Program Funded)	1	1	1	0	2	0	5	0	0	0	0	1	0	1	6	6
Total USPSCs	1	1	1	0	2	0	5	0	0	2	0	3	0	5	10	10
FSN/TCN Direct Hire (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FSN/TCN Non Direct Hire (OE/TF)	0	1	1	0	1	0	2	1	0	8	0	1	0	10	12	12
FSN/TCN Non Direct Hire (Program Funded)	1	0	0	0	1	0	2	0	0	0	0	0	0	0	2	2
Total FSN/TCN Non Direct Hire	1	1	1	0	2	0	4	1	0	8	0	1	0	10	14	14
Total FSN/TCN (OE/TF)	0	1	1	0	1	0	2	1	0	8	0	1	0	10	12	12
Total FSN/TCN (Program Funded)	1	0	0	0	1	0	2	0	0	0	0	0	0	0	2	2
Total FSN/TCN Staff	1	1	1	0	2	0	4	1	0	8	0	1	0	10	14	14
Total Other (RSSA, PASA, IPA) (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other (RSSA, PASA, IPA) (Program Funded)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total FSN/TCN Staff	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total OE/TF Staff (includes USDH)	0	1	1	0	1	0	2	2	0	11	0	4	0	17	19	19
Total Program Funded Staff	2	1	1	0	3	0	0	0	0	0	0	1	0	1	1	1
Grand Total All Staff	2	2	2	0	4	0	9	2	0	11	0	5	0	18	27	27

Notes:

* TAACs and Fellows count against G ceilings only and thus are "below the line" for field operating units. Service in the capacity of TAACs should be reported as TAACs regardless of the hiring mechanism. They should not be reported under PSCs, PASAs, RSSAs, etc.

The data in the table reflects positions, NOT, on-board strength or FTEs. You can divide the positions of people working on more than one SO, but do not subdivide in units of less than a half (0.5).

Provide separate tables for FY 97, 98, and 99.

**Workforce Resources
FY 1998 Position Allocation of Staff Ceilings**

Organization: USAID/HUNGARY

Staff								Support Offices							Subtotal Support Staff	Grand Total Staff
	INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES	IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES	A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR	AN ECON. SUSTAINABLE RESTRUCTURED ENERGY SECTOR	BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL	CROSS CUTTING AND SPECIAL INITIATIVES	Subtotal S.O. Staff	Mission Mgt.	Controller	EXO	Contracts	Legal	Program	Other		
USDH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0	0.0	0.0	1.0	0.0	3.0	3.0
USPSC (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
USPSC (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	0.0	2.0	0.0	4.0	4.0	4.0
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
USPSC (Program Funded)	1.0	1.0	1.0	0.0	2.0	0.0	5.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0	6.0	6.0
FSN/TCN Direct Hire (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Direct Hire (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (OE/TF)	0.0	1.0	0.5	0.0	0.5	0.0	2.0	1.0	0.0	8.0	0.0	1.0	0.0	10.0	12.0	12.0
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (Program Funded)	1.0	0.0	0.0	0.0	1.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0
Other (RSSA, PASA, IPA) (OE/TF Funded)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (RSSA, PASA, IPA) (Program Funded)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Staff by Objective	2.0	2.0	1.5	0.0	3.5	0.0	9.0	2.0	0.0	11.0	0.0	0.0	5.0	0.0	18.0	27.0
TAACs*																
Fellows*																

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Totals by Staffing Category - FY 1999 Target

Staff	Support Offices											SubTotal Support Staff	Grand Total Staff			
	INCREASED SOUNDNESS OF FISCAL POLICES AND FISCAL MANAGEMENT PRACTICES	IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES	A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR	AN ECON. SUSTAINABLE RESTRUCTURE D ENERGY SECTOR	BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL	CROSS CUTTING AND SPECIAL INITIATIVES	Subtotal S.O. Staff	Mission Mgt.	Con-troller	EXO tracts	Legal			Program	Other	
USDH	0	0	0	0	0	0	0	0	1	0	0	0	0	0	3	3
USPSC (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	4
USPSC (Program Funded)	0	1	1	0	2	0	4	0	0	0	0	1	0	0	1	5
Total USPSCs	0	1	1	0	2	0	4	0	0	0	0	3	0	0	5	9
FSMTCN Direct Hire (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FSMTCN Non Direct Hire (OE/TF)	0	1	1	0	1	0	2	1	0	0	0	1	0	0	8	10
FSMTCN Non Direct Hire (Program Funded)	1	0	0	0	1	0	2	0	0	0	0	0	0	0	0	2
Total FSMTCN Non Direct Hire	1	1	1	0	2	0	4	1	0	0	0	1	0	0	8	12
Total FSMTCN (OE/TF)	0	1	1	0	1	0	2	1	0	0	0	1	0	0	8	10
Total FSMTCN (Program Funded)	1	0	0	0	1	0	2	0	0	0	0	0	0	0	0	2
Total FSMTCN Staff	1	1	1	0	2	0	4	1	0	0	0	1	0	0	8	12
Total Other (RSSA, PASA, IPA) (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other (RSSA, PASA, IPA) (Program Funded)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total FSMTCN Staff	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total OE/TF Staff (includes USDH)	0	1	1	0	1	0	2	2	0	0	0	4	0	0	15	17
Total Program Funded Staff	1	1	1	0	3	0	0	0	0	0	0	1	0	0	1	1
Grand Total All Staff	1	2	2	0	4	0	8	2	0	0	0	5	0	0	16	24

Notes:

* TAACs and Fellows count against G ceilings only and thus are "below the line" for field operating units. Service in the capacity of TAACs should be reported as TAACs regardless of the hiring mechanism. They should not be reported under PSCs, PASAs, RSSAs, etc.

The data in the table reflects positions, NOT, on-board strength or FTEs. You can divide the positions of people working on more than one SO, but do not subdivide in units of less than a half (0.5).

Provide separate tables for FY 97, 98, and 99.

**Workforce Resources
FY 1999 Position Allocation of Staff Target Levels**

Organization: USAID/HUNGARY

Staff								Support Offices							Subtotal Support Staff	Grand Total Staff
	INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES	IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES	A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR	AN ECON SUSTAINABLE RESTRUCTURE D ENERGY SECTOR	BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL	CROSS CUTTING AND SPECIAL INITIATIVES	Subtotal S.O. Staff	Mission Mgt.	Con-troller	EXO	Con-tracts	Legal	Program	Other		
USDH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0	0.0	0.0	1.0	0.0	3.0	3.0
USPSC (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
USPSC (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	0.0	2.0	0.0	0.0	4.0	4.0
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
USPSC (Program Funded)	0.5	1.0	1.0	0.0	2.0	0.0	4.5	0.0	0.0	0.0	0.0	1.0	0.0	0.0	1.0	5.5
FSN/TCN Direct Hire (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Direct Hire (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (OE/TF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internationally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (OE/TF)	0.0	1.0	0.5	0.0	0.5	0.0	2.0	1.0	0.0	6.0	0.0	1.0	0.0	0.0	8.0	10.0
Locally Recruited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FSN/TCN Non-Direct Hire (Program Funded)	0.5	0.0	0.0	0.0	1.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Other (RSSA, PASA, IPA) (OE/TF Funded)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (RSSA, PASA, IPA) (Program Funded)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Staff by Objective	1.0	2.0	1.5	0.0	3.5	0.0	8.0	2.0	0.0	9.0	0.0	0.0	5.0	0.0	16.0	24.0
TAACs*																
Fellows*																

ANNEX IV

ACTIVITY CLOSE-OUT TIMELINES

ACTIVITY TERMINATION

Fiscal Year:	FY 97				FY 98				FY 99			
Quarter:	1	2	3	4	1	2	3	4	1	2	3	4

NO. 1 INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES

0004 Environmental Economics - HIID												
0021 Education Modernization -USIA												
0027 Tax Administration - UST												
0023 Pension Reform - CIPE												
0027 Short-term TA Fiscal Reform - FSVC												
0014 Pension Fund Supervision -UST												
0038 Health Care Protocol Guidelines-DHHR												
0038 Hospital Accreditation												
0038 Outpatient Care												
0038 Rational Drug Use												

NO. 2 IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES

0023 Business Development Grants -Peace Corps												
0023 Assistance to Private Enterprises -MBA Corps												
0014 SME Management Services -RONCO												
0023 U.S.-based SME short-term Training -EMED												
0023 Private Enterprise Development -CIPE												
0014 ESOPs Assistance -Share Participation												
0034 Housing Sector Assistance -EE Real Property												
0034 Housing Sector Assistance -Urban Institute												
0014 Small Business Loans (OTP LPG)-KPMG												
0024 Regional Access to Info. & Credit -ACDI/VOCA												
SME Information Dissemination												
0029 Total Quality Management Centers -SUNY												
0029 Mgmt. Training & Econ. Educ. -Indiana University												

NO. 3 A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR

0014 Assistance to Credit Rating Agency -First Wash.												
0034 Housing Sector Assistance -Urban Institute												
0027 Financial Market Short-term TA -FSVC												
0014 State Banking Supervision -KPMG												
0027 Financial Services -UST												

NO. 4 AN ECONOMICALLY SUSTAINABLE RESTRUCTURED ENERGY SECTOR

0030 Utility Partnership Program -USEA												
0030 Regulatory Restructuring -BECHTEL												
0030 Regional Energy Efficiency -ELECTROTEX												

NO. 5 BETTER INFORMED CITIZENS INCREASE PART. IN DECISION MAKING AT LOCAL LEVEL

0022 Professional Media Training -IREX												
0033 Labor Restructuring -DOL												
0019 Public Administration -ICMA												
0037 Health Partnerships -AIHA												
0034 Housing Sector Assistance -Urban Institute												
0034 Democracy Advocate -Urban Institute												
USIA - Democracy Commission Small Grants												
0032 Democracy Networks -UWI												

CROSS CUTTING AND SPECIAL INITIATIVES

0045 Top-up Grants -USIS												
0030 BECHTEL												
0039 Water Quality Investment -GEF												
0002 English Teaching -USIS												
0030 ELECTROTEX												
Housing Sector Assistance												
0045 Ron Brown Scholarships -USIS												
0045 Participant Training -World Learning												
0249 Audit Evaluation and Project Support												

ANNEX V

HUNGARY GRADUATION SUMMARY

From the onset of U.S. assistance, USAID's objective has been to assist Hungary's transition to a democratic, stable and prosperous nation taking its place in the international arena. This assistance has addressed three broad areas: economic transformation, democratization, and the quality of life. The Hungary of 1997 is clearly posed to achieve its goals. This annex examines the evidence on each broad area of concern by reviewing the status of the transition process, progress in implementing institutional changes and the sustainability of these changes.³

Economic Transition

Hungary's transition has been accompanied by wrenching economic dislocations and weaknesses. From 1988 through 1993, Hungary experienced a five-year shrinking of its economy of over 18%, comparable in some respects to the Great Depression in the United States from 1929 to 1933. In 1994, the Hungarian economy began to come out of this severe five-year recession. Household incomes grew in real terms for the first time since 1989. Industrial production increased at significant rates for two consecutive years, leading to modest recovery of economic performance. In 1996, however, economic growth slowed to 0.3%. However, we expect sustained growth of around 5% a year by 1999. Per capita income was some \$4,200 in 1996. The fact that recovery of economic activity is resulting from increased investment by the private sector justifies predictions of a new investment cycle and raise the prospects of sustained growth of GDP over the medium term.

Process: The basic policy, legal and regulatory frameworks needed for smooth functioning of an open market economy are in place, and steady progress continues to be made on improving how these frameworks are implemented.

With early USAID/Hungary assistance, Hungary's State Privatization Agency became a respected and trusted organization, replacing a process of ad hoc privatizations. The Agency developed the skills to write tender offers, find buyers, evaluate bids, and structure and negotiate deals. In late 1992, the privatization effort for small firms and agriculture enterprises began to lag amid growing concern that under-capitalized Hungarian investors were unable to compete with foreign capital in the contest for the remaining stock of viable state-owned enterprises. USAID/Hungary assisted development of a series of non-traditional privatization mechanisms including lease-purchase, installment payment facilities, management buyout, voucher (credit notes) and asset management contracts. In addition, USAID assisted Hungary in drafting Employee Stock Ownership Plans (ESOPs) legislation which soon became the third ESOP law on the books in the world, after the United States and the United Kingdom.

³Data supporting this review is presented in the tables appearing in the main body of the report and in an annex table of supplementary indicators.

When Is Transition Complete?

The U.S. Government, including USAID, envisaged in the Mission strategy that Hungary's transition stage would be completed when:

-
- the policy, legal and regulatory frameworks necessary for effective democratic governance and private sector development and growth are in place;
 - fiscal policies and fiscal management practices are sound and prudent, and supportive of a stable, balanced socio-economic environment favorable to private sector investment, and sustained, broad based economic growth and development;
 - the sustainability of basic social benefits and services is assured;
 - a competitive, market-oriented economy has emerged in which the majority of economic resources is privately owned and managed;
 - there is a thriving, growing private sector characterized by confident small and medium enterprises doing business in an environment that rewards risk-taking and initiative, provides models for strong operational performance and presents opportunities for sustainable expansion;
 - a competitive, market responsive private financial sector routinely and efficiently mobilizes savings to finance private sector investment and economic growth;
 - the energy sector is substantially privately owned and managed, and regulated to balance cost effective service to the public, with incentives for increased private investment;
 - governance at all levels is transparent and accountable, and citizens actively and freely participate in democratic political processes;
 - the goal of, and models for, the participation of citizens and non-governmental organizations in all aspects of political and economic decision-making are generally perceived as accomplished;
 - an independent media and open flow of information is taken for granted;
 - Hungarians enjoy a natural environment which is not detrimental to their health or welfare, and the sustainable use of natural resources is assured; and
 - expected dislocations and temporary adverse impacts of the transition process have been adequately addressed.

A large part of the formerly state-controlled banking sector has been privatized. Over 50% of the countries banks are partially or wholly foreign owned. During 1995, the National Savings Institute Hungary's largest individual deposit bank (\$372 million), and Budapest Bank (\$181 million) were privatized. By 1999, all Hungarian commercial banks are expected to be fully or partially privatized and none of them will be controlled by GOH agencies.

The Budapest Stock Exchange reopened in 1990 after 42 years of inactivity. In 1996, it advanced dramatically, with trade volume exceeding the previous five years combined and the stock index rising 163%. Companies listed on the exchange tend to be export-oriented -- trading, food production and pharmaceuticals. Foreign investors dominate trading with about 80% of turnover.

The regulatory framework needed to ensure that financial sector operations are based on free, fair and open market competition is well advanced. All necessary regulatory agencies, the State Banking Supervision, State Insurance Supervision, the State Stock Exchange Supervision and the Supervision of Mutual Pension Companies are now operating even though appropriate independence is not yet in place.

Foreign companies now dominate the Hungarian insurance system (12 of 14 companies are totally or partially foreign owned) and the industry is growing rapidly. In 1994, insurance industry capitalization rose some 36% (over \$260 million). Over time, the industry is expected to significantly add to the stock of capital for long-term investment.

Some weaknesses remain in transition to open market institutions. Shortcomings exist in financial markets and in the legal and regulatory environment impacting the operations of small and medium size enterprises (SMEs).

Banks with foreign ownership shares controlled just 21% of banking assets in 1995, but accounted for 44% of the corporate lending market. Financial system supervisory institutions are in a start-up phase and not yet fully developed. The extent to which supervisory agencies can be genuinely independent has not yet been established in Hungary. Inefficient banking system intermediation continues to result in inappropriate asset structures, high spreads and poor but improving average operating performance. Average capitalization of banks is not yet adequate by international standards.

The insurance industry is in acceptable financial condition, but does not offer the range of insurance coverage generally found in Western, industrialized countries. Private health coverage, for example, is very limited. Supervision of the insurance industry is *pro forma* only. Securities markets are underdeveloped and do not yet enjoy widespread public confidence.

Implementation: Although key economic reforms have been successfully implemented, fundamental indicators of economic welfare have not yet fully recovered. The index of per capita consumption declined 3.2% in 1995, down 18% from 1989. The restructuring of the economy has largely taken place with only recent and modest positive impact on people-level indicators.

Today, more than 70% of Hungary's GDP is in private hands, following sales last year of energy and telecommunication works that resulted in \$3 billion in foreign direct investment. During the period September 1993 to July 1995, the State Privatization Agency sold 42 enterprises and closed 20 postponement, bankruptcy and liquidation transactions. The total value of these operations amounted to \$620 million, including \$241 million in sales proceeds and \$379 million in new capital subscribed. By the end of 1995, approximately 200 companies employing over 75,000 people had been privatized through ESOP plans. Only 30% of the 1,857 state-owned companies in 1990 remained in state hands at the end of 1995.

Confidence in Hungary's prospects by international investors is demonstrated by over \$13 billion in cumulative foreign direct investment. Indeed, Hungary has attracted nearly half of the capital invested in the region. The United States is the leading investor in Hungary with over \$3.5 billion in various sectors.

Implementation of transition reforms is inhibited by inexperience with entrepreneurship. Most of the 400,000 active registered SMEs have been established since 1989. External and internal knowledge and information gaps are common among most business owners in Hungary. A typical proprietor is a skilled craftsman, but lacks adequate management skills for financial management or planning. External gaps refer to insufficient knowledge of markets, suppliers, technology, business systems, and financing mechanisms. Internal gaps refer to the limited utilization of modern business systems and practices.

During the five-year recession, many SMEs failed and banks moved to cut their losses by severely restricting further lending to SMEs. Overall lending volume to SMEs dropped by 60% of past year peaks. The National Savings Institute, for example, made only 41,000 loans in 1994, and collateral requirements (150%) are widely prohibitive. Credit, once relatively plentiful, is a major obstacle to growth of the SME sector. Modern management practices and aggressive marketing are not yet characteristics of the sector, but are key requisites to survival in competitive markets. Significant progress was made in 1996 and USAID/Hungary's assistance activities in this area are on track.

Sustainability: Hungary came out of its "transformational" recession with major weaknesses. The recovery was accompanied by a very large current account deficit, itself reflecting a large imbalance in the fiscal accounts. Such "twin deficits" are not sustainable and substantial was made on reducing them in 1996. The fiscal deficit declined from 7.5% of GDP in 1994 to 3.3% in 1996. The current account deficit of the balance of payments declined from 9.5% of GDP in 1994 to 3.5% in 1996. The ratio of public debt to GDP declined to 0.63 at the end of 1996 (down from 0.85 at the end of 1994), nearly reaching the level that would be acceptable to end the constraint debt has placed on Hungary's growth prospects.

In 1996, Hungary managed to reach its goal of a fiscal budget deficit of under 4% of GDP, thereby facilitating accession into the Organization for Economic Cooperation and Development. This success also contributed to the approval of a new IMF Standby that provides a structured framework for donor collaboration and continued progress on fiscal reform.

Despite progress on foreign debt management and fiscal deficits, progress in other areas has not been evident. In 1996, unemployment averaged 11% of the labor force and inflation averaged 24%. GDP growth continues to be disappointing. Per capita GDP is less than that already achieved before transition began.

Nevertheless, Hungary's transition to a market economy appears to be fully sustainable. The strengths of privatization, debt management, fiscal deficit control, foreign

investment, and prospects for economic growth are sufficient to assure that the economy will survive the unresolved weaknesses in banking, employment, and business inexperience.

Democracy

Hungary has joined the ranks of fully democratic nations. The country has a completely democratic and representative political system based on free and fair elections, and rule of law. Hungary's Parliament is considered to be an effective rule-making institution. The executive and legislative bodies conduct their affairs in an open and transparent manner. Hundreds of pieces of major legislation underpinning Hungary's transition have been enacted. Fundamental liberties and individual freedoms are guaranteed by laws and generally practiced. Hungary's press is free.

In March 1990, Hungary's first national parliamentary elections were held and were generally considered to be free and fair. The first post-communist democratic government was formed in May 1990. In 1994, new elections resulted in the Socialist party winning an absolute majority of seats (54), replacing the previous center-right coalition. This peaceful transition of power demonstrates the sustainability of Hungary's democratic change. The executive and legislative bodies, both nationally and locally, conduct their affairs in an open and transparent manner. Hungary has enjoyed a viable multi-party political system since 1989. Eight parties are represented in the National Assembly.

Hungary's judiciary is financially independent of the executive branch. Judges are nominated by the Minister of Justice and appointed by the President with the consent of Parliament. They are substantially free of political control from either branch of government. The President of the Supreme Court is selected by Parliament. Under the Constitution, the courts are responsible for the administration of justice. The Supreme Court exercises policy control over the operation and adjudication of all courts. A separate Constitutional Court is charged with reviewing the constitutionality of laws and statutes. The right to a fair trial is provided for by law and respected in practice. All citizens have the right to own private property.

Fundamental liberties and individual freedoms, including freedom of speech, religion and association, have been codified in law, and with some exceptions, respected in practice. In 1994, Hungary passed its law on ethnic and minority rights. However, Hungary's government continues to have problems in its response to ethnically motivated incidents. And some minorities, particularly Gypsies, reportedly are not treated the same as most other Hungarians.

With the enactment of the December 1995 Media Law, Hungary now enjoys legislated freedom of the press. Although national radio and television stations are publicly owned, some local radio stations are privately owned, as is cable television. Many newspapers are operated by local self-governing administrations, but there are large numbers of

private publications. Editorial integrity is generally respected, although true investigative journalism is still rare. In addition, telecommunications, including Internet, are in private hands and thriving. Although state-controlled radio and TV stations continue to enjoy a virtual monopoly of nation-wide broadcasting, more than half the population now have satellite or cable access to international broadcasts. Reform legislation which would insulate the media from State control and regulate other aspects of the media has been presented to Parliament by the government, although it does not appear that quick action will be taken. The print media is generally regarded as free though most distribution is done through the postal system as a matter of economics.

Hungary's rapid approach to decentralization devolved major socio-economic responsibilities to local communities unable to manage or finance them. There are more than 3000 municipal governments but most local governments have yet to become effective and accessible, and need to foster the integration of a rapidly growing NGO sector into community affairs both as a forum for day-to-day citizen participation and as an effective partner working with local governments in the interest of local populations. Although most local government officials in Hungary are competent and able to manage, many do not have access to the technical expertise associated with modern management. Management systems are generally incomplete, and cooperation with the large NGO community is often unenthusiastic.

The number of NGOs has grown rapidly in the past 8 years. Over 44,000 NGOs were registered by the end of 1995. Among these are 5,600 business and professional associations, 650 political organizations, and 700 grant-making and umbrella non-profit organizations. A new NGO law before Parliament will provide tax benefits to NGO contributors and enhance the prospects for further growth of the sector.

Hungary is making progress in protection of minorities. The 1993 Law on Ethnic and Human Rights protects the individual and collective rights and ethnic identity of all minorities. Special elections in December 1994 resulted in the election of 600 minority local bodies to represent their interests locally and, in 1995, these groups elected national officials. Tighter discipline within police ranks and more aggressive police and legal action is steadily reducing the number of anti-Semitic and racial incidents as well as "skin-head" attacks.

Hungary's adjustment to democratic government has been rapid. The Freedom House scoring, based on a scale of 1 to 7, with "1" representing the highest level of freedom, is a good indicator of how far Hungary has come. In the area of political rights, Freedom House established Hungary as a "5" in 1988-89. By 1990-91, Hungary had risen to a "2" and by 1993-94 reached the "1" rating. In the area of civil liberties, Hungary rose from a "4" in 1988-89 to "2" in 1990-91.

Quality of Life

With reduction in the role of the state, some state provided social services have been reduced. The welfare of the poorest Hungarians has declined. Per capita income and employment remain below performance before transition began, placing palpable stress on the social safety net. Pensions and health care, both major state expenses are targeted for significant reform. Expenditures on pensions and health have not, however, declined rapidly.

Formal employment in Hungary at the end of 1994 was estimated at approximately 82% of the number employed in 1988 before serious restructuring began. The emergence of high unemployment (11% in 1996), although moderated by a dynamic, pervasive informal sector estimated at over one-third of the recorded formal economy in terms of value added, has been particularly disruptive, especially since high unemployment rates in some areas of the economy are several times the national rate.

During the 1989-1993 recession, real wages declined by around 6%. Despite unemployment, the return to positive GDP growth has not raised real wages, leading to a more than 15% cumulative decline in real per capita incomes since 1988.

The incidence of relative poverty has increased substantially during the transition period. Based on a threshold of 50% of mean household income, poverty increased from 4.3% of households in 1989 to 34.6% in 1993. The poverty gap declined from 17.1% to 15.6%, indicating that poverty is fairly shallow, that is, although the number of poor households has increased substantially, typical incomes of households classified in poverty in 1993 were only 15.6% less than the income of households at the threshold defining relative poverty. This modest gap explains, in part, why poverty for many households is transient. The rest of the explanation is the frequent churning of households between brackets in the income hierarchy. The poorest 10% of households, however, do not change relative positions as quickly as most households. Indeed, it is these households that have suffered the largest declines in real incomes. Most of the households in this decile can be characterized as being in permanent, severe poverty.

Economic pressures on relatively poor people probably account for the decline in food consumption. Per capita consumption of meat and of calories fell in 1995, with calorie consumption down 15% from the peak in 1987. Economic stress also plays a role in increased crime. The number of offenders sentenced per hundred thousand of population rose in 1995 to a level 78% higher than in 1990.

Basic infrastructure has suffered throughout the transition period, with particular impact on the relatively poor. The number of settlements without healthy drinking water who were supplied with clean water by the state rose dramatically in 1990 but by 1995 had fallen to 78, the lowest level ever recorded. The volume of water processed for drinking has fallen nationally to 75% of the 1990 level.

Health statistics show better performance than most other sectors. Infant mortality is under 11 per thousand births and has declined every year. The number of physicians per person in the country has risen every year. Life expectancy for males at birth was 65.25 in 1995, which was an improvement over the previous two years and is slightly lower than the level typical before transition began. The expectancy for males in neighboring Austria, however, is nearly six years higher. Life expectancy for females was 74.5, the highest ever.

There has been a slight improvement in surface water pollution during the last decade. Also encouraging has been a significant improvement in the water quality of Central Europe's largest lake - Lake Balaton. The construction and upgrade of communal waste water treatment plants and stronger controls on industrial mining west of the lake have led to decreased levels of biological and chemical contaminants. Water pollution remains a serious threat in Hungary's poorer areas and along international borders where cross-border environmental cooperation is minimal. The greatest water pollution problems stem from a lack of adequate water treatment and canalization in many mid-sized municipalities, leading to surface and subsurface water contamination. Nitrate contamination is becoming a potentially serious problem in many municipal drinking water supplies.

Ambient air pollution in Hungary has two main sources: industry and traffic. A significant portion of the industrial air pollution problem is related to power plants and the usage of high sulfur content lignite coal and the lack of de-sulfurization equipment. Among other air polluting activities, emissions from the organic and inorganic chemical industry are considerable. Emissions of air pollutants from power production and metallurgy is decreasing, however, due to economic restructuring and declining production. Still, the air is particularly polluted (SO₂ and NO_x) in the heavily trafficked regions.

There are problems in the areas of both hazardous waste and municipal solid waste. The problems include more than 2,000 illegal dumping sites, inept processing of toxic and hazardous waste, weak laws governing storage, and the decentralization of landfills in the hands of financially strapped local governments. There are few initiatives to reduce waste production. Regional landfills are few and expensive. Selective collection, recycling and reuse options are only now being explored by a few far-sighted municipalities.

Improved industrial processes that prevent pollution before it starts are central to sustainable pollution control. USAID/Hungary has conducted waste minimization projects at eleven factories in Hungary. At Perion Akkumulatorgyar Rt., the largest producer of lead acid batteries in the country, efforts were concentrated on reducing water usage, decreasing waste water flow and lowering the quantities of cadmium and lead discharged into the municipal sewer system. The project lowered the annual amount of lead released into the environment by 200 kilograms and the amount of cadmium released by 60 kilograms. This investment, which included \$26,000 in equipment and a series of process modifications, is saving the plant \$65,000 a year. A project at the Borsodchem

RT plant addressed the recovery of vinyl chloride monomer (VCM), a carcinogen, from emissions into the air. The U.S. Government provided a thermoparamagnetic oxygen system analyzer to monitor the oxygen content in the gasses emitted from the plant's steam stripper column. The result of the project was an annual reduction in VCM emissions of 240 tons and a \$144,000 per year savings for the factory.

In a project designed to combat industrial cross-border water pollution, the governments of Hungary, Slovakia and Romania have pledged to cooperate in a mutual effort to reduce the emission of toxic compounds in selected cross-boundary rivers. This project sets up a cross-boundary monitoring and communication network that will foster regional pollution warning and emergency mitigation plans. It also identifies specific pollution danger zones and major industrial polluters with regional impacts and targets them and area regulators for technical assistance, training and equipment.

The 1995 Environmental Framework Law makes environmental standards fair, enforceable and in harmony with those of the European Union. Sustainability of environmental progress is supported through the Hungarian Environment Management Training Center which offers courses for municipal officials in revenue raising mechanisms to fund environmental investments, municipal waste management, and principles of government contracting. These EPA-developed training programs are delivered to Hungarian trainers who in turn explore opportunities to share their knowledge and the course-developed literature to individual and consortiums of municipalities.

Supplementary Indicators of Economic and Social Welfare

	1989	1990	1991	1992	1993	1994	1995	1996
ECONOMIC INDICATORS								
GDP/capita (US\$)		3189	3228	3608	3745	4061	4273	4235
Average CPI inflation	17.0	28.9	35.0	23.0	22.5	18.8	28.2	23.6
Pension & health payments (% GDP)*				29.6	28.3	26.1	27.9	26.6
Average unemployment (% workforce)					42.9	11.4	10.6	11.0
real investment (index)	100	90	79	78	80	90	85	85
real consumption/capita (index)	100	95	86	86	88	88	82	
SOCIAL INDICATORS								
infant mortality/1000 births		14.8	15.6	14.1	12.5	11.5	10.7	
physicians/1000 population	34.8	36.9	38.2	39.6	40.3	40.6	41.6	
life expectancy at birth (males)	65.4	65.1	65.4	65.6	64.5	64.8	65.2	
life expectancy at birth (females)	73.8	73.7	73.8	73.7	73.8	74.2	74.5	
drinking water production (mil m ³)		1006			791	755	750	
crime (# sentenced/10 ⁵ population)	756	564	775	911	874	923	1006	

*Source: *Statistical Yearbook of Hungary, 1995* for data through 1995.

ESTIMATES OF ECONOMIC INDICATORS, 1995 AND 1996		
	1995	1996
GDP		
nominal		
billions Ft	5,493.8	6,606.3
billions S	43.7	43.3
real growth %	1.5	0.3
per capita S	4,273	4,235
Exchange rates Ft/S		
average	125.7	152.6
year end	139.5	164.9
Real wage growth %		
gross	-8.8	1.0
net	-12.2	-3.0
Unemployment % labor force		
average during year	10.6	11.0
December	10.4	10.5
Inflation % price level chg		
average	28.2	23.6
Dec/Dec	28.3	19.8
Foreign debt		
Gross billions S	31.7	28.2
Gross % GDP	72.3	62.8
Net billions S	16.8	12.2
Net % GDP	38.4	29.2
Investment, real growth %	-5.3	0.0
Central govt balance bil Ft		
with priv inc to bgt	-139.2	81.4
w/o priv proceeds	-289.2	-130.4
Central govt balance % GDP		
with priv inc to bgt	-2.5	1.2
w/o priv proceeds	-5.3	-2.0
SS funds balance % GDP	-0.7	-1.1
Extraord funds bal % GDP	-0.2	-0.2
Local gvt bal % GDP	-0.3	-0.1
General gvt balance % GDP	-6.5	-3.4
BOP, curr acct bal		
billions S	-2.5	-1.7
% GDP	-5.7	-3.9

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ANNEX VI

OTHER DONORS

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The activities of international donors, including USAID, have contributed significantly to Hungary's transition toward democracy and a market-oriented economy. Both USAID's performance and the question of when USAID assistance should end, are linked to the activity of other donors. Each component of the close-out plan considers the plans of other donors. This annex collects the most relevant portions of those plans in an overview of the assistance environment.

Since 1990, **EU PHARE** has committed approximately \$637 million in assistance to Hungary through technical assistance programs and loans. EU PHARE planned assistance to Hungary from 1995-1999 will be approximately \$553 million. Their activities focus in the following areas: European Integration, including the approximation of laws and public administration; education and training with emphasis on the establishment of a human resources development fund; economic development focusing on agriculture, privatization and restructuring small and medium sized enterprises; regional development, trade and investment promotion; tourism development; public finance; social sector reform; infrastructure development with emphasis on road and water rail transport, communications, transit, water management, energy and the environment; and participation in EU programs. Since 1990, enterprise development (including privatization), agriculture, and environmental projects have accounted for over half of EU-PHARE's commitments.

Since 1986, the **World Bank** has committed approximately \$1.7 billion to 20 loans under its supervision. An additional 10 loans with a value of approximately \$950 million are currently under preparation. The Bank has focused on supporting Hungary's efforts at creating a market-oriented competitive economy more conducive to private sector development through hybrid loans, investments loans, structural adjustment loans, and quick dispersing funds to support institutional and policy reform. The Bank's main goals in Hungary are three-fold: 1) promoting reforms that ensure an economic policy environment which does not discriminate against private sector activity; 2) supporting the development of institutions and services that facilitate private sector growth; and 3) supporting the private sector through targeted assistance to small and medium sized enterprises.

Since 1990, the **British Know-How Fund** has committed approximately \$45 million in grant-funded assistance to Hungary. Although there is no fixed annual budget for Hungary, approximately \$6.5 million is programmed annually. Assistance is mainly provided through grant support to individual projects. Priority areas for the Fund include: economic restructuring/privatization; financial services development; management education and training; small business development; employment services; public administration; and environmental reform.

Since 1991, the **European Bank for Reconstruction and Development (EBRD)** has approved approximately \$1 billion in loans for 35 investment projects in Hungary. This is the highest percentage of financing from the EBRD next to the Russian Federation. The EBRD provides both public and private sector financing. However, the private

sector has received the largest amount of EBRD financing in Hungary. Additional funding has also been provided for limited technical assistance. Priorities for the bank loans and technical assistance are: promotion of the private sector through privatization of state-owned enterprises, restructuring of state owned companies; financing private Hungarian companies and state-owned companies; development of the financial sector; financing of critical infrastructure, mainly telecommunications, transport, energy and natural resources; financing municipal sector projects; tourism; and agribusiness.

Since 1990, the **German** Government has provided approximately \$71 million in assistance to Hungary through its bilateral assistance program. Although there is not a fixed annual budget, Hungary receives approximately \$14 million a year. The main focus for the German assistance program is support to small and medium-sized enterprises, which accounts for 40% of the program. Other priorities for the program are: assistance to farming, agribusiness, privatization, labor and social policy, banking, environmental protection, and legal reform conducive to EU integration.

Since 1990, the **Japan** assistance program has provided approximately \$15 million in assistance to Hungary. Assistance is provided through five institutions: Japan International Cooperation Agency, the Association for Overseas Technical Scholarships, the Japan Productivity Center, the Japan Overseas Cooperation Volunteers, and the Japanese Import-Export Bank. Priorities for the Japanese assistance program include: environmental protection, agriculture, industrial and productivity development, health care, and cultural activities.

ANNEX VII

STRATEGIC OBJECTIVE TEAMS MEMBERSHIP DIRECTORY

**Increased Soundness of Fiscal Policies and Fiscal Management Practices
A More Competitive And Market-Responsive Private Financial Sector**

(Operate as a single team)

Core team:

Katalin Babosik
Ken Beasley
Larry Birch
Karoly Okolicsanyi
John Packer
Susan Matthies, ENI/HR/HP
Victoria Wohlsen, ENI/PER
Jean Lange, ENI/PER/ER
Margaret Pollock, ENI/PER/ER
Sunny Low, ENI/EEUD/UDH
Melissa Brinkerhoff, ENI/ED/SB

Extended Team:

John Moran, ECON
Roderick Rumreich, First Washington Associates
Mark Allen, IMF
Roberto Rocha, World Bank
Millard Long, World Bank
Robert Palacios, World Bank
William Sudmann, US Treasury
Don Billing, US Treasury
Chris Black, FSVC
Peter Csillik, Prime Minister's Office
Ed Nolan, KPMG
Imre Tarafas, State Banking Supervision
Laszlo Asztalos, Insurance Supervision
Glenn Morris, HIID
Laszlo Csaba, Ministry of Finance
Laszlo Kekesi, Hungary Tax Office
Katie Mark, Urban Institute
Piroska Varga, Ministry of Welfare
Laszlo Fejes, Ministry of Finance
Gabor Simo, Health Project Coordinator, Ministry of Welfare
Jean Rogers, CIPE
Zoltan Pacsi, Hungarian Banking and Capital Market Supervision
Tibor Parniczky, Pension Fund Supervision
Ralph Shilling, US Treasury
David Nummy, US Treasury
Maria Major, Ministry of Welfare

Improved Operations of Small and Medium Sized Enterprises

Core Team

Katalin Babosik
Anne Beasley
Larry Birch
Karoly Okolicsanyi
James Dzierwa
Susan Kutor
Melissa Brinkerhoff, ENI\ED\SB
Lawrence Camp, ENI\PER\EP
Sandra Goshgarian, ENI\PER\ER
Patricia Bekele, ENI\HR\TE
Charles Signer, ENI\ED\SB
Frank Mertens, ENI\ED\AG
Sonny Low, ENI\EEUD\UDH

Extended Team

Robert Silber, Econ.
Krisztina Nemeth, Peter Toth, EU-PHARE
Nick Leake, British Know How Fund
Gabor Jobbagy, Center for Private Enterprise Development
Arpad Kezdi, Center for Private Enterprise Development
Gabor Geczi, World Learning
Tamas Szekelyhidi, VOCA
Maria Sebestyen Kostyal, ACDI
Erzsebet Banyaine, OTP Bank
Jean Rogers, CIPE
Katie Mark, Urban Institute
Al Van Hoyck, EERPF
Gyorgy Bogel, Management Development Center
Eva Molnar, MATCH Indiana University
Dr. Jozsef Voros, MBA Enterprise Corps
Janos Lukacs, Share Participation Foundation
Istvan Bogyo, Small Business Development Center, Debrecen
Ross Sawtelle, IESC
Anna Szekacs, Hungarian Ministry of Finance
Laszlo Kallay, Institute for Small Business Development
Zoltan Szemerey, Hungarian-American Enterprise Foundation
Peter Zuban, Baranya County Enterprise Promotion Center

Better Informed Citizens Increase Their Participation In Decision-Making At The Local Level

Core Team

Larry Birch
Klara Vizer
Patrick Egan
Susan Kutor
Bruce Abrams
Agnes Sprecher
Bruce Grogan
Mike Kalinoski
Jane Metcalf
Bill Frej
Ted Priftis
Debbie Berns
Peter Graves
Petra Reyes
Kathryn Davis

Extended Team

Zsuzsa Flachner
Maria Heidkamp
Mike Jackson
Katie Mark
Charles Jokay
Beatrice Camp
Maria Zam
Sandor Orban

An Economically Sustainable, Restructured Energy Sector

Core Team

Bruce Abrams - USAID/Budapest
Jacqueline DeRosa - USAID/Washington
Ira Birnbaum - USAID/Washington

Extended Team

Robert Silber - U.S. Embassy/Budapest
Howard Menaker - Bechtel Corporation
Lawrence Markel - Electrotek Concepts, Inc.
Ruth Chersonson - U.S. Energy Agency
Ian Brown - EU/Hungary Energy Centre

ANNEX VIII

**Monitoring Country Progress
In Central And Eastern Europe
January 1997**

HUNGARY

Summary

Hungary is among the leaders in the ENI region in the transition to a market-oriented democracy. Its economic policy reforms are far along and its democratic reforms have resulted in political and civil liberties comparable to those found in many Western countries. Economic performance has been weak although there have been remarkable strides in adopting the requisite policy reforms. While some social indicators signal improvement, persistently high rates of inflation, declining real wages, high regional 'pockets' of unemployment, and deteriorating health and other social infrastructure bear watching -- particularly in view of the general elections to be held next year. While democratization and most economic reform indicators might suggest readiness to 'graduate' in FY 1998, this should be weighed against the results of continuing reviews of economic performance and progress in attaining "third round" economic policy reforms and improved social indicators. Hungary is a member of WTO, OECD, an EU Associate, and host to US/NATO troops serving in Bosnia (where a small Hungarian Army force is also deployed).

I. Economic Policy Reforms

Of all the transition economies, Hungary, alongside the Czech Republic, is the most advanced in its economic policy reforms. "First round" reforms have advanced the furthest: (a) small-scale privatization is complete; (b) standards of advanced industrial economies have been achieved in trade and foreign exchange reforms; and (c) substantial progress in price liberalization (including energy) has been achieved.

Progress may also be sufficient in second round economic reforms: (a) more than fifty percent of state-owned large-scale enterprise assets has been privatized with substantial outsider ownership; and (b) significant and sustained actions have been taken to harden budget constraints and to promote corporate governance effectively.

Further consolidation is likely needed in third round reforms. Progress includes: (a) some enforcement actions to promote a competitive environment, and a substantial reduction of market entry restrictions for firms; (b) substantial progress in establishment of bank solvency, of a framework for prudential bank supervision, and significant lending to private firms; (c) emergence of non-bank financial institutions and associated regulatory framework; and (d) investment laws reasonably well-administered and supported judicially.

The private sector now accounts for 73% of GDP, the third highest in the region. However, public sector reform, particularly as it

relates to social sector services and infrastructure investments, may be insufficient. No measurable backsliding has occurred in Hungary's economic policy reforms in recent years, despite a predominantly socialist coalition having been voted back into power in 1994.

II. Democratization

Political rights in Hungary are comparable to those in many EU countries. Elections at the national and sub-national levels are free and fair. Those elected rule. There are competitive political parties, and the opposition has an important role, and significant power and autonomy.

Civil liberties in Hungary are comparable to those found in many Western countries. These liberties extend to media, rights of assembly and demonstration, civic associations, religious institutions, professional organizations, and trade unions; as well as to equality of opportunity, and to equal treatment before the law. The judiciary is deemed to be independent and non-discriminatory. This overall level of democratization has been maintained since 1992.

III. Economic Performance

Hungary's macroeconomic performance may be the least robust of the handful of CEE contenders for USAID graduation. Economic growth is very modest (1994-1996 average of scarcely two percent). GDP is now at 87% of the 1989 level, which ranks Hungary sixth in the CEE region. Inflation is too high (1994-1996 average of twenty-four percent). The fiscal deficit, while lower now than in years past, is still problematic (although down to four percent of GDP in 1996). The current account deficit is too high (almost eight percent of GDP in 1994-1995), and the debt service as a percent of exports is much too high (forty-five percent in 1995).

Still, FDI flows as a percent of GDP are much greater in Hungary than in any other country of the region. Labor productivity growth since 1992 has been impressive (an average annual increase of 11%). Private sector output now accounts for nearly 75 percent of the economy. Finally, alongside the Czech Republic and Poland, Hungary has progressed the most in terms of "institutional integration" with the industrial market economies.

IV. Social Conditions

A mixed picture is derived from the various social indicators. Unemployment is a comparatively recent (post-1989) phenomenon, although its 10.4% average (1996) is a point below the EU and CEE averages. While unemployment has fallen steadily since 1992, the proportion of long-term unemployed is growing. Income inequality has increased during the transition, though IBRD indicators suggest that the current level is well below that found in most OECD countries. The poverty rate has also increased, although perhaps less than the CEE average. Poverty appears to be "shallow", with many of the poor only marginally such according to World Bank statistics (although Hungarians who have seen better times may not

appreciate this fine technical distinction). Average income is close to ninety percent of the pre-transition level, although wages have been falling in real terms for over two years. Infant mortality has fallen appreciably over 1991-1994, and IBRD figures suggest that life expectancy has increased slightly during this period (although recent Amembassy reporting cites declining life expectancy and longstanding negative population growth). Finally, secondary school enrollment is reported to have increased since 1990.

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DRAFTED BY: AID/ENI/ECA:BWICKLAND:HUNGARY.R4C
APPROVED BY: AID/AA/ENI:TDINE
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AID/ENI/PCS:JCONLY AID/PPC/PA:BSCHUE
AID/ENI/ECA:DLCOWLES AID/M/B/PA:MYEARWOOD(DRAFT
AID/ENI/PD:GSTEELE(DRAFT) AID/G/PDSP:GSTANDROD(DRAFT
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ADM AID ATTENTION AIDREP THOMAS F. CORNELL

E.O. 12958: N/A

TAGS:

SUBJECT: HUNGARY STRATEGIC PLAN AND R4 REVIEW

1. INTRODUCTION: A STRATEGIC PLAN PROVIDES THE FRAMEWORK FOR USAID-WIDE COMMITMENT TO AN AGREED STRATEGIC DIRECTION AND SET OF RESULTS TO BE ACHIEVED AT THE STRATEGIC OBJECTIVE (S.O.) LEVEL OVER THE PLANNING PERIOD. AN APPROVED STRATEGIC PLAN IS CONSISTENT WITH LEGISLATIVE REQUIREMENTS TO MANAGE FOR RESULTS, AND FACILITATES RESULTS-ORIENTED PROGRESS REPORTING. THE RESULTS REVIEW
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AND RESOURCE REQUEST (R4) SERVES AS THE MECHANISM FOR AID/W ANNUAL REVIEW OF COUNTRY PROGRAM PERFORMANCE AND AGREEMENT ON RESOURCE TARGETS/ALLOCATIONS FOR PROGRAM IMPLEMENTATION.

2. PROGRAM APPROVAL: USAID REPRESENTATIVE TO HUNGARY, THOMAS F. CORNELL, PRESENTED THE HUNGARY STRATEGIC PLAN AND R4 ON 19 JUNE. CHAIRING THE REVIEW, DAA/ENI BARBARA TURNER COMMENDED AIDREP AND HIS USAID/BUDAPEST STRATEGIC OBJECTIVE TEAMS FOR THE HIGH QUALITY OF THE WORK PRODUCED. THIS CABLE CONSTITUTES AID'S APPROVAL OF THE USAID/HUNGARY PROGRAM FOR THE FY 1996-99 STRATEGIC PERIOD. SUBJECT TO UNDERSTANDINGS NOTED IN PARA 3 BELOW, THIS CABLE APPROVES USAID/HUNGARY'S SELECTION OF STRATEGIC OBJECTIVES,

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ALLOCATION OF BUDGET LEVELS AMONG S.O.'S, RESULTS FRAMEWORKS FOR ACHIEVING S.O.'S, ASSOCIATED INDICATORS, BASELINES, AND TARGETS FOR ASSESSING PROGRESS AND FOR ANNUAL RESULTS REVIEWS, AS WELL AS COMPOSITION OF S.O. TEAMS. APPROVED S.O.'S AND BUDGET LEVELS ARE SUMMARIZED IN PARA 6 BELOW.

3. THE UNDERSTANDINGS ARE:

A. USAID/HUNGARY WILL SEEK TO MANAGE FOR THE RESULTS DEFINED IN THE COUNTRY PROGRAM WITHIN THE POSSIBILITIES OF ITS MANAGERIAL CONTROL, AND AID/ENI WILL SEEK TO PROVIDE THE POLICY, RESOURCE, AND PERSONNEL SUPPORT NECESSARY FOR SUCCESSFUL ACHIEVEMENT.

B. THE FOLLOWING GUIDELINES APPLY TO FUTURE PROGRAM
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CHANGES:

(1) -- ADDITION, DELETION, OR SIGNIFICANT REDEFINITION OF ANY S.O. WILL REQUIRE AA/ENI APPROVAL;

(2) -- USAID/HUNGARY MAY MAKE CHANGES TO THE UNDERLYING RESULTS FRAMEWORK FOR ANY S.O. WITHOUT AA/ENI APPROVAL, SO LONG AS SUCH CHANGES DO NOT SIGNIFICANTLY ALTER THE PROPOSED STRATEGY FOR ACHIEVING THE S.O.;

(3) -- BUDGET CHANGES WILL NORMALLY BE ASSOCIATED WITH PROGRAM CHANGES. STRATEGIC BUDGET CHANGES ARE: (I) SHIFTS IN FUNDING BETWEEN STRATEGIC ASSISTANCE AREAS (SAA) AMOUNTING TO A CUMULATIVE INCREASE OR DECREASE OF AN SAA OF MORE THAN FIVE PERCENT; AND (II) SHIFTS IN FUNDING BETWEEN STRATEGIC OBJECTIVES AMOUNTING TO A CUMULATIVE INCREASE OR DECREASE OF MORE THAN TWENTY PERCENT. STRATEGIC BUDGET CHANGES MUST BE APPROVED IN ADVANCE BY THE DAA/ENI. IN ADDITION, THE DAA/ENI AND THE STATE SEED COORDINATOR MUST APPROVE IN ADVANCE PROPOSED CHANGES IN FUNDING LEVELS FOR ENTERPRISE FUNDS AND ACTIVITIES MANAGED BY OTHER USG AGENCIES. PROPOSALS FOR ANY OF THE ABOVE CHANGES MUST BE SENT TO ENI/PCS (WITH COPIES TO THE ENI COUNTRY DESK) TO PROCESS THE NECESSARY APPROVALS.

(4) -- USAID/HUNGARY MAY APPROVE CHANGES IN FUNDING FOR USAID-MANAGED ACTIVITIES OF LESS THAN FIVE PERCENT BETWEEN SAAS, CHANGES OF LESS THAN TWENTY PERCENT BETWEEN S.O.'S, AND FUNDING CHANGES FOR USAID-MANAGED ACTIVITIES WITHIN S.O.'S.

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(5) -- ALL PROPOSED BUDGET CHANGES MUST BE DISCUSSED WITH THE COGNIZANT ENI/W TECHNICAL OFFICES THROUGH THE VENUE OF THE S.O. TEAMS, AND THEN COMMUNICATED IN ADVANCE TO

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ENI/PCS. NEW OR INCREASED FUNDING FOR PROJECTS SHOULD BE HIGHLIGHTED, SO THAT ENI/PCS MAY ASSURE CONGRESSIONAL NOTIFICATION WHEREVER REQUIRED. ENI/PCS WILL ALSO VET PROPOSED BUDGETARY CHANGES THAT COULD AFFECT STATUTORY EARMARKS AND ADMINISTRATION OR OTHER CONGRESSIONALLY SUPPORTED INITIATIVES. ENI/W WILL CONFIRM BUDGET CHANGES TO USAID/BUDAPEST THROUGH PERIODIC OYB UPDATES.

C. DELEGATION OF AUTHORITY. SECTION 103.5.13 OF THE ADS UNIFORMLY DELEGATES BROAD MANAGEMENT AUTHORITIES TO PRINCIPAL OFFICERS OF ENI FIELD POSTS. PRINCIPAL OFFICERS ALSO HAVE AUTHORITY TO DELEGATE MOST OF THOSE AUTHORITIES TO STRATEGIC OBJECTIVE TEAM LEADERS. POST SHOULD ADVISE ENI/PD OF ADDITIONAL DELEGATIONS, NOT INCLUDED IN ADS 103.5.13, NEEDED TO FACILITATE PROGRAM ACHIEVEMENT. ENI/PD WILL SEEK TO OBTAIN SUCH ADDITIONAL DELEGATIONS OF AUTHORITY AND ADVISE POST ON STATUS AND FINAL DECISION.

D. REFINEMENTS TO RESULTS FRAMEWORKS: USAID/HUNGARY AGREED TO AID/W SUGGESTIONS TO CONSIDER REFINEMENTS TO ITS RESULTS FRAMEWORKS, AS DETAILED IN THE DISCUSSION OUTCOMES PAPER FROM THE RESULTS FRAMEWORK REVIEW. IN PARTICULAR, USAID WILL PROVIDE FURTHER ELABORATION OF THE RESULTS FRAMEWORKS SCHEMATICS FOR S.O. 1.2, 1.3, AND 1.4. USAID ALSO AGREED TO SUGGESTIONS AT THE STRATEGY REVIEW TO REVIEW THE SCOPE AND CAUSAL LINKAGES FOR S.O.2.1, AND HAS ACCEPTED ENI/PCS OFFER TO PROVIDE TDY ASSISTANCE FOR SUCH
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FRAMEWORK REFINEMENTS.

E. REFINEMENTS TO THE STRATEGIC PLAN: BASED ON THE PROGRAM REVIEW AND ACTIONS DETAILED IN THIS CABLE, USAID/HUNGARY WILL SUBMIT A REVISED STRATEGIC PLAN AND RESULTS FRAMEWORKS O/A 30 SEPTEMBER 1996. USAID FURTHER AGREES TO INCORPORATE THE RESULTS FRAMEWORKS SCHEMATICS INTO THE STRATEGIC PLAN, TO ADD THE FRAMEWORK NARRATIVES ON ASSUMPTIONS/CAUSAL LINKAGES, AS WELL AS TO ADD PERFORMANCE DATA TABLES TO THE PLAN ANNEX.

F. FY 98 BUDGET LEVEL: ALTHOUGH USAID/HUNGARY PLANNED FY 98 ACTIVITIES BASED ON AN INITIAL AAPL ALLOCATION OF EIGHT MILLION DOLLARS, THE APPROVED BUDGET LEVEL PROVED TO BE ONE MILLION DOLLARS LESS. USAID/HUNGARY STRESSED ITS NEED FOR EIGHT MILLION DOLLARS IN FY98. IN THE MEANTIME, IT SUPPLIED ITS S.O. ALLOCATIONS AT THE SEVEN MILLION DOLLAR LEVEL, AS REFLECTED IN PARA. 6 BELOW. USAID IS REQUESTED TO PROVIDE JUSTIFICATION FOR THE HIGHER LEVEL ALONGWITH ITS REVISED STRATEGIC PLAN.

G. THIS CABLE FORMS THE MANAGEMENT CONTRACT FOR THE HUNGARY PROGRAM.

4. THE FOLLOWING PARAGRAPHS COMMUNICATE THE SUBSTANCE OF THE PROGRAM REVIEW MEETING: KEY DECISIONS, RESOLVED ISSUES, AND ISSUES NEEDING FURTHER ATTENTION.

A. ISSUE 1: WHETHER USAID/HUNGARY'S SOCIAL SECTOR REFORM EFFORTS SHOULD BE MADE A SEPARATE STRATEGIC OBJECTIVE.

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DISCUSSION: THE USAID PRESENTATION DESCRIBED SOCIAL CONCERNS, INCLUDING RISING POVERTY, INCOME INEQUALITIES, AND PUBLIC REACTIONS TO SOCIAL SERVICES CUTBACKS. USAID/HUNGARY MAINTAINED THAT ACHIEVEMENT OF THE FISCAL S.O. AND RESULTING ECONOMIC GROWTH WILL ENABLE HUNGARY TO ADDRESS ITS SOCIAL SECTOR CONCERNS. IT THEREFORE INCLUDED MOST OF ITS WORK ON SOCIAL SECTOR REFORMS UNDER THE STRATEGIC OBJECTIVE OF IMPROVED FISCAL POLICY AND MANAGEMENT. IN CONTRAST, THE ENI STRATEGIC FRAMEWORK SEPARATES IMPROVEMENTS IN THE SUSTAINABILITY OF SOCIAL BENEFITS AND SERVICES (S.O.3.2) FROM BROADER PROGRAMS OF FISCAL REFORM (S.O.1.2) WITH THE AIM OF EASING THE PUBLIC FINANCIAL BURDEN OF THE OLD SOCIAL CONTRACT. AIDREP CORNELL STRESSED THAT IMPROVED FISCAL MANAGEMENT IS THE OVERRIDING PRIORITY MANDATED BY THE USAID TRANSITION STRATEGY, AND THAT THE S.O. TEAM WAS STRONGLY COMMITTED TO INTEGRATING SOCIAL SECTOR REFORMS WITHIN THE FISCAL S.O. MOREOVER, ESTABLISHING A SEPARATE SOCIAL SERVICES S.O. WOULD LIKELY INCREASE THE WORKLOAD ON LIMITED USAID/HUNGARY STAFF. IT WAS AGREED THAT THE REPORTING SYSTEM SHOULD NOT DRIVE THE S.O.'S, BUT EFFORTS SHOULD BE MADE TO CODE RESULTS FOR ENI/W REPORTING PURPOSES.

ACTION: THE REVIEW ENDORSED THE USAID/HUNGARY PROPOSAL, WITH MOST OF THE WORK ON SOCIAL SECTOR REFORM INCORPORATED WITHIN THE STRATEGIC OBJECTIVE ON FISCAL POLICY/MANAGEMENT.

B. ISSUE 2: WHETHER IMPROVED LOCAL GOVERNMENT SHOULD RECEIVE MORE EMPHASIS IN THE USAID STRATEGY.

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DISCUSSION: THE AIDREP WAS ASKED WHETHER CONSOLIDATION OF LOCAL GOVERNANCE, LOCAL PARTICIPATION, AND SELF-HELP ACTIVITIES UNDER A SINGLE PARTICIPATION S.O. ALLOWED ADEQUATE EMPHASIS TO BE PLACED ON STRENGTHENING LOCAL GOVERNMENT. A RELATED QUESTION WAS WHETHER A LARGER SHARE OF THE BUDGET FOR S.O.2.1 SHOULD BE DIRECTED TOWARDS SUCH INTERMEDIATE RESULTS AS IMPROVED LOCAL GOVERNMENT MANAGEMENT, RESOURCE BASE, AND SERVICE DELIVERY. THE AIDREP RESPONDED THAT EMPOWERMENT OF LOCAL CITIZENRY TO GET THINGS DONE RATHER THAN LOCAL GOVERNMENT PERFORMANCE CONSTITUTED THE PRIMARY PROGRAM OBJECTIVE. HE CITED THE UNIQUE USAID ROLE IN DEVELOPING SUCCESSFUL EMPOWERMENT

MODELS FOR EVENTUAL NATION-WIDE REPLICATION WITH OTHER DONORS' ASSISTANCE. ENI/W REQUESTED FURTHER USAID/HUNGARY

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CONSIDERATION OF THIS ISSUE AND ADDED THAT IF THE POST DECIDED TO ALLOCATE SIGNIFICANT ADDITIONAL RESOURCES TO A LOCAL GOVERNMENT ELEMENT, A SEPARATE S.O. FOR LOCAL GOVERNMENT MIGHT BE APPROPRIATE. IT WAS NOTED THAT THE EVENTUAL DECISION MUST BE COMPATIBLE WITH USAID/HUNGARY'S STAFFING ADEQUACIES.

ACTION: USAID/HUNGARY WILL TAKE A CLOSER LOOK AT ITS EFFORTS TOWARDS MORE EFFECTIVE AND RESPONSIVE LOCAL GOVERNMENT TO DETERMINE WHETHER THIS RESULT SHOULD RECEIVE INCREASED EMPHASIS AND FINANCIAL SUPPORT, AND WHETHER TWO SEPARATE STRATEGIC OBJECTIVES ARE WARRANTED. USAID WILL REFLECT ANY CHANGES IN THE REVISED STRATEGIC PLAN TO BE SUBMITTED O/A SEPTEMBER 30, 1996.

C. ISSUE 3: ENHANCING USAID/HUNGARY'S WORKFORCE.
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DISCUSSION: USAID/W ENDORSED AIDREP'S PLANS FOR PROGRAM CONCENTRATION AND THE NEED TO PROVIDE TRAINING OPPORTUNITIES AND JOB INCENTIVES TO RETAIN QUALIFIED AND WELL-MOTIVATED STAFF UNTIL CLOSE-OUT. ENHANCED LOCAL-HIRE INCENTIVES ARE A COMMON CONCERN AMONG ENI FIELD POSTS. GIVEN USAID/HUNGARY CONSTRAINTS, IT WAS AGREED THAT ENI/W OFFICES MUST BE EXTREMELY CAREFUL IN MAKING INFORMATION REQUESTS TO USAIDS AND SHOULD FIRST RELY ON INFORMATION RESOURCES AVAILABLE WITHIN AID/W.

ACTION: ENI/AMS WILL SUPPORT USAID/HUNGARY IN WORKING OUT IMPROVED FSN AND PSC INCENTIVES.

D. ISSUE 4: PROGRAM CLOSE-OUT PLAN.

DISCUSSION: ENI/W NOTED THAT A STRATEGY WHICH ENCOMPASSES CLOSE-OUT SHOULD DISCUSS PROSPECTS FOR SUCCESSFUL TRANSITION, POSSIBLE BRIDGING MECHANISMS TO SUSTAIN PATTERNS OF ASSISTANCE AFTER CLOSURE OF THE REGULAR BILATERAL PROGRAM, AND/OR OTHER WAYS TO SEE THAT BASIC U.S. INTERESTS ARE MAINTAINED. AIDREP RESPONDED THAT THE STRATEGY PROPOSES THE PARAMETERS AND DEFINES ISSUES FOR CLOSE-OUT, BUT THAT THE LEVEL OF SPECIFICITY AND WORK ON INDIVIDUAL ISSUES REQUIRED AID/W APPROVAL OF THE STRATEGIC PLAN PRIOR TO PROCEEDING WITH A CLOSE-OUT PLAN.

PARTICIPANTS REAFFIRMED THE PROPOSED CLOSE-OUT TIMELINE DESCRIBED IN STATE 97943, RECOGNIZING THAT SOME UNCOMPLETED ACTIVITIES MAY WARRANT EXTENSION BEYOND THE CLOSE-OUT DATE. ENI/W ENVISAGED A FLEXIBLE RESPONSE TO
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SUCH NEEDS AND MENTIONED PLANS FOR A CONSULTANT TO HELP
CEE POSTS NEARING CLOSE-OUT TO CONSIDER MECHANISMS FOR

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SUSTAINING MOMENTUM AND CONTINUING U.S. COOPERATION AFTER CLOSE-OUT.

DECISION: FOLLOWING APPROVAL OF THE STRATEGY, USAID/HUNGARY WILL PREPARE A PROGRAM CLOSE-OUT PLAN TO BE SUBMITTED AT THE SAME TIME AS ITS 1997 R4. ENI/W WILL PROVIDE GUIDANCE ON THE FORMAT AND CONTENT OF THE PLAN. ENI/PD AND ENI/ECA ARE PREPARED TO ASSIST WITH PREPARATION OF THE CLOSE-OUT PLAN IF NEEDED BY POST.

5. ISSUES RESOLVED AT THE ISSUES MEETING AND FOLLOW-UP ACTIONS WHERE APPLICABLE:

A. ISSUE 1: USAID/HUNGARY STRATEGY FOR STRENGTHENING SMALL/MEDIUM ENTERPRISES (S.0.1.3).

DISCUSSION: AIDREP EXPLAINED THAT USAID/HUNGARY'S PROGRAM FOR S.0.1.3 PLACES MAJOR EMPHASIS ON BUILDING THE CAPACITY OF INDIGENOUS BUSINESS SUPPORT INSTITUTIONS, INCLUDING BUSINESS ASSOCIATIONS, CONSULTING FIRMS, TRAINING INSTITUTIONS, AND THINK TANKS. THIS CAPACITY BUILDING NEEDS CONTINUED EFFORT TO ACHIEVE SELF-SUSTAINABILITY BEFORE USAID DISENGAGES FROM THE OBJECTIVE. A RELATED QUESTION WAS USAID/HUNGARY'S RATIONALE FOR CONTINUED SUPPORT TO THE CORPORATE RESOURCE CENTER (3.5 MILLION DOLLARS OVER FY 1996-98), WHICH HAS HAD A QUESTIONABLE TRACK RECORD, AND TENDS TO FOCUS ON MEDIUM-SIZE FIRMS (AS DISTINCT FROM SMALL) WHICH APPEAR TO BE MAKING ADEQUATE

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HEADWAY.

USAID/HUNGARY STATED THAT IT PLANS TO REPROGRAM ASSISTANCE ORIGINALLY INTENDED FOR THE CORPORATE RESOURCES CENTER PROJECT IN LIGHT OF CONTRACTOR TERMINATION. USAID/HUNGARY WILL CONTINUE ITS TECHNICAL INSTITUTION BUILDING AND COMPLEMENTARY FIRM-SPECIFIC ASSISTANCE. AIDREP ARGUED PERSUASIVELY FOR CONTINUING DIRECT ASSISTANCE TO SMALL (TWELVE TO FIFTY EMPLOYEES) ENTERPRISES WHICH OFFER SO MUCH POTENTIAL FOR IMPROVING GRASS ROOTS LIVING STANDARDS. HE NOTED THAT HUNGARIAN SMALL/MEDIUM ENTERPRISES NOW ACCOUNT FOR FIFTY PERCENT OF GDP AND HALF THE LABOR FORCE, SUGGESTING A RELATIVELY FAST DEVELOPING PART OF THE ECONOMY.

ACTION: USAID/HUNGARY'S STRATEGY FOR S.0.1.3 WAS CONSIDERED SOUND. USAID/HUNGARY WILL REFLECT ITS REPROGRAMMING OF FUNDS FROM THE CORPORATE RESOURCE CENTER TO ANOTHER APPROACH IN ITS REVISED STRATEGIC PLAN.

B. ISSUE 2: STRENGTHENING INDEPENDENT MEDIA (S.0.2.1).

DISCUSSION: PROMEDIA, WORKING WITH THE CENTER FOR INDEPENDENT JOURNALISM, IS THE ONLY SEED-FUNDED PROVIDER OF PRACTICAL TRAINING FOR SMALL, PRIVATE TELEVISION AND RADIO STATIONS. LACK OF OUTYEAR FUNDING COULD HAMPER THE PROGRAM, JUST AS IT IS GAINING MOMENTUM. THE AIDREP

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RESPONDED THAT THE USAID PLANS TO EXTEND THE IREX PROGRAM THAT FOCUSSES ON IMPROVED TRAINING FOR SMALL, PRIVATE TV AND RADIO STATIONS, AND THE STRATEGY FOR DEMOCRATIC PARTICIPATION S.O. 2.1 INCLUDES AN INTERMEDIATE RESULT FOR UNCLASSIFIED

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STRENGTHENING INDEPENDENT LOCAL MEDIA. HOWEVER, FUNDING CONSTRAINTS WILL AFFECT THE SCOPE OF THIS EFFORT.

DECISION: THE REVIEW ACCEPTED USAID'S POSITION THAT LOCAL MEDIA TRAINING WILL REMAIN HIGH ON ITS LIST OF PRIORITIES FOR EXPANDED EFFORT AND FUNDING, IF ITS BUDGET LEVELS ARE ADEQUATE.

C. ISSUE 3: NEED FOR A SEPARATE S.O. FOR ENERGY DEVELOPMENT WAS QUESTIONED.

DISCUSSION: USAID/HUNGARY'S MODEST NEW FUNDING FOR ENERGY DEVELOPMENT (200,000 DOLLARS IN FY 1996 AND NONE THEREAFTER) SUGGESTED THAT S.O. 1.5 HAD NEARLY CONCLUDED. THE AIDREP EXPLAINED THAT CONSIDERABLE RESOURCES WERE STILL IN THE PIPELINE AND THAT HUNGARY WAS THE ONLY CEE COUNTRY THAT HAD ALREADY UNDERTAKEN MAJOR PRIVATIZATION OF ITS ENERGY SECTOR. U.S. TECHNOLOGY AND EXPERIENCE OFFER A COMPARATIVE ADVANTAGE TO GOH ENERGY PLANNERS AS, FOR EXAMPLE, BY INTRODUCING THE TYPICALLY AMERICAN CONCEPT OF AN INDEPENDENT REGULATORY AGENCY TO PROTECT THE PUBLIC INTEREST, THEREBY ENCOURAGING PRIVATE INVESTMENT. MAJOR AMERICAN INVESTMENTS WERE BEING ATTRACTED TO THIS SECTOR, AND THE EMPHASIS ON MARKET PRICING IS RESPONSIVE TO DONOR AND INVESTOR CONCERNS.

DECISION: GIVEN THE CONSIDERABLE PIPELINE AND USAID'S CRUCIAL AND UNIQUE ROLE, IT WAS AGREED THAT HELPING HUNGARY TO "GET ENERGY RIGHT" IS APPROPRIATE AND DESERVING OF AN INDEPENDENT S.O.

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D. ISSUE 4: UNCERTAIN FUTURE FUNDING FOR MUSKIE SCHOLARSHIPS.

DISCUSSION: IN RESPONSE TO USIA'S ISSUE REGARDING THE MUSKIE SCHOLARSHIP PROGRAM, AIDREP MAINTAINED THAT, FACED WITH DECLINING RESOURCES, THERE IS NO ALTERNATIVE BUT TO CONCLUDE FUNDING FOR THE PROGRAM AFTER FY96. USIA WAS ENCOURAGED TO SEEK FUNDING FOR MUSKIE CONTINUATION FROM ITS OWN BUDGET. THE USIA REPRESENTATIVE NOTED THAT USIA'S OWN CUTBACKS DID NOT OFFER ENCOURAGEMENT, DESPITE THE

CONTRIBUTIONS OF THIS PROGRAM TO USAID/HUNGARY'S OBJECTIVES.

ACTION: IF NEITHER USAID NOR USIA BUDGET RESOURCES CAN

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COVER THE MUSKIE SCHOLARSHIPS, THEY WILL BE PHASED-OUT AFTER FY96. USAID/HUNGARY WILL ADDRESS THIS ISSUE IN ITS CLOSE-OUT PLAN DUE WITH THE FY97 R4.

6. APPROVED BUDGET BY STRATEGIC OBJECTIVE - HUNGARY
BUDGET BY S.O. (DOLS 000'S)

	FY 96	FY 97	FY 98H	FY 98L
S.O.1.2 FISCAL POLICY/MGT	2,949	2,400	1,750	1,370
S.O.1.3 IMPROVED ENT.PERFORMANCE	4,863	5,150	1,150	920
S.O.1.4 FINANC. SECTOR	3,200	3,300	1,350	960
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S.O.1.5 ENERGY SECTOR	200	0	0	0
S.O.2.1 LOCAL PARTICIPATION	3,450	2,850	1,750	1,350
S.O.4 CROSS CUTTING/SPECIAL	2,338	1,300	1,000	1,000
TOTALS	17,000	15,000	7,000	5,600

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USAID/HUNGARY REITERATED ITS NEED FOR \$8 MILLION IN FY98, AS ORIGINALLY PROPOSED IN ITS STRATEGIC PLAN.

7. MANAGEMENT CONTRACT: TO ESTABLISH A MANAGEMENT CONTRACT FOR PROGRAM ACHIEVEMENT, THE AIDREP IS REQUESTED TO SEND A RETURN CABLE, ACKNOWLEDGING AGREEMENT WITH THIS PROGRAM REVIEW SUMMARY AND THE UNDERSTANDINGS ASSOCIATED WITH PROGRAM APPROVAL. WE ASK THAT QUALIFICATIONS OR CLARIFICATIONS BE HELD TO A MINIMUM.

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