

PD-ABP-445

**POLAND IN THE YEAR 2000:  
USAID GRADUATION PLAN**

**FY 1998 RESULTS REVIEW  
& RESOURCE REQUEST**

**USAID/POLAND  
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## I. Poland in the Year 2000: USAID Graduation Plan

### A. Strategic Context

#### 1. Current Status of Country in Moving through Transition

##### Introduction

U.S. assistance with Poland's transition to democracy and markets began in 1989 with the inception of SEED Act support. Debt restructuring and debt relief from the U.S. and other creditors has been a major factor in helping Poland through the transition. Poland was willing to use shock therapy at the earliest critical point in its transition, despite resulting social hardship.

With a population of 38.5 million, Poland is the largest market for U.S. exports in the region. As the largest domestic market in the region, Poland also has great potential for attracting foreign investment, but per capita direct foreign investment to date is still low, even compared to smaller countries like Hungary. Nevertheless, country progress indicators show that Poland's fundamental economic strength has been re-established. Inflation and debt are now contained at manageable levels, thanks to Poland's tight discipline on money supply, government budgets, and enterprise credit, and pre-1990 output has been re-established. The Polish real GDP expanded by 5.2% in 1994 and an estimated 6% in 1995 (according to the World Bank); Poland is second only to Albania in having the highest rate of economic growth in the region.

Poland's enterprise restructuring and shedding of excess labor, resulted in major productivity increases at the enterprise level. Hence, in 1994 private sector industrial output rose by 23%, while that of State enterprises expanded by only 6%. (See Annex 7 for other Poland Selected Economic Indicators for 1989-1995.) In 1995, Poland paid back all of its drawings and graduated from IMF assistance, in recognition of its macro-economic stability, excellent track record in debt management, and government fiscal restraint.

During the period since 1989, Poland has established a parliamentary democracy with a President and Council of Ministers who share power with a Prime Minister and bicameral legislature, a multiparty system, and free and fair elections. Poland will also probably meet NATO membership qualifications by the end of 1996, moving its security interests forward and increasing public confidence in the durability of its economic reforms.

U.S. funding levels have declined annually since 1992, in recognition of this progress. As a result, the last USAID funding for Poland is now planned for FY 1999, with the

graduation from a direct hire USAID presence planned for the end of FY 2000. With this definition, this strategy considers the year 2000 to be Poland's expected year of graduation from USAID assistance.

### **Political Developments**

The independent and self-governing trade union Solidarity was founded as a result of worker protests and it was formally established on August 31, 1980. The Union's authorities at all levels were elected. On April 5, 1989, Solidarity, who at the time led the democratic opposition in Poland, signed the "Round-Table Agreement" which included a guarantee of full trade union freedom. In August 1989, as a result of efforts by Solidarity, the Polish Parliament approved Tadeusz Mazowiecki as the Prime Minister of Poland, marking the beginning of this era of democratic government in Poland. In December 1990, in the first free presidential elections, Lech Walesa, the leader of Solidarity, was selected as the President of the Republic of Poland.

The present government is a coalition of the Democratic Left Alliance (SLD), a successor to the Polish United Workers Party (PZPR, former Communist Party), and the Polish Peasant Party (PSL, a successor to the United Peasant Movement). Headed by Prime Minister Cimoszewicz (SLD), the coalition is 4 lower house seats short of a veto-proof 2/3 majority. On November 19, 1995, voters chose SLD Party Chairman Aleksander Kwasniewski as Poland's President.

Since forming a government in 1993, this coalition has largely followed the reformist policies of its Solidarity predecessors. Strains in the coalition surface periodically, especially over economic policy. Former President Walesa, now a prominent spokesman for the opposition, has pledged to reunite the parties of the right to regain control of the Parliament in elections scheduled for September 1997.

The Polish armed forces and the internal security apparatus are subject to governmental authority and are under civilian control. Poland has identified accession to the European Union (EU) and NATO as its two most important foreign policy priorities, and is actively working on this agenda.

Since 1991, Poland has operated under an outdated temporary constitution that was developed in the 1950's. Though work has begun on a new constitution, there is no legal deadline for its completion, but President Kwasniewski cites its enactment, via spring '97 national referendum, as one of his top priorities.

The lack of opportunity for women in the labor market remains a fact of life. Though the Constitution provides for equal pay for

equal work, women are paid on average 30% less than men for equal work. Clauses in social insurance law that limit child sick care benefits and early retirement to women only encourage discrimination in hiring. There are no legal penalties for discriminating in hiring practices, and job advertisements frequently indicate gender preferences. Women are still banned from working in 90 occupations, and they comprised over 55% of the unemployed in July 1995. Women are also under-represented in government and politics, including only 13% of Parliamentarians, one out of 17 ministers, and none of the parliamentary party leaders.

One of the most ground-breaking democratic reforms in 1989 was the creation of democratically elected local governments ("gminas"). One of the most divisive issues facing Parliament at this time is whether to proceed with transforming the voivods (regional central government offices) into democratically elected governments, and to recreate the "powiat" (county) level between the 49 voivods and 2,500 gminas, also as another elected level. There is not likely to be any decision on this issue before the September 1997 elections and, in fact, a long term process would be involved in establishing any national consensus.

The political party situation is more fluid at the local level. Coalitions unlikely at the national level are formed and tested at the local level, serving as a "laboratory" for the development of future political alignments with national-level potential to govern. Poland's local governments are already a non-partisan political force in national politics. Local elections will next take place in summer '98.

#### **Recent Economic Performance**

In 1995, strong export-led growth continued, inflation dropped by one-third, foreign investment flows nearly doubled to \$2.5 billion, and the zloty shifted smoothly to partially floating rates (within a 14% band) and achieved IMF Article VIII current account convertibility. Poland received an investment grade credit rating in mid-year and returned to international capital markets for the first time since the 1980's with a small but highly successful Eurobond issue. Poland's total debt slipped below 60% of GDP, meeting another Maastricht criterion. GDP growth for 1996 is still estimated at 6%, and government deficits will fit within the 2.8% of GDP limit set by the 1996 Budget Act. In fact, the budget deficit will be within the EU's Maastricht limit for the fourth year in a row.

According to the Central Statistics Office, poverty is widely prevalent and increasing and its statistics support this view. Since there is so much unrecorded income in the economy, however, it is hard to know whether this is accurate. As pensions for the elderly have been relatively well-funded so far, large families

and landless rural households are the groups most at risk from poverty.

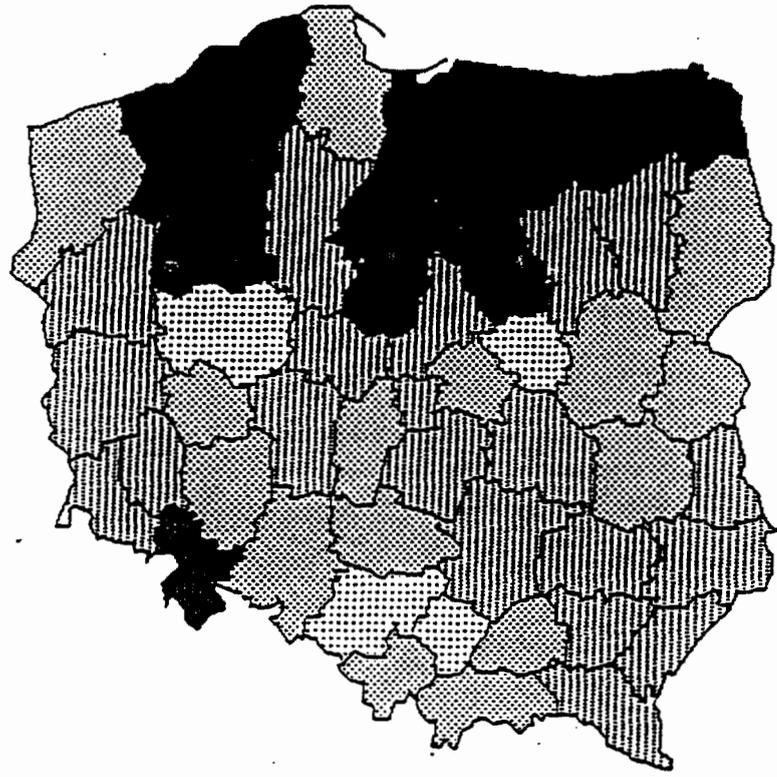
Regional growth has not been balanced. Regions close to Germany are taking off quickly, but those to the east near the Ukraine are relatively disadvantaged. Furthermore, the gap between more well-off and poorer regions is growing. Since 1989, an intensified process of regional polarization has been observed, i.e. a reduction in the group of regions that are close to the national average in income, versus a simultaneous increase in the group of regions that are either much better or much worse off than average. For example, per capita income in the voivod of Nowy Sacz is 70% below the country's per capita GDP. Privatization has proceeded faster in regions in the western half of the country. Foreign capital invested per capita is higher in the west, and lower in the eastern regions. (See the maps on the following pages for illustrative patterns of these types of regional inequity). This inequity is also observable in cities, where unemployment rates range from a low of 3.8% in Warsaw to a high of 30% in Olecko.

Overall, Poland has a relatively low level of economic development compared to the EU countries. According to the World Bank, GDP per capita in Poland, calculated based on purchasing power parity, comprises only 29% of the average equivalent in EU countries, approximately equivalent to the per capita GDP of Bulgaria and Lithuania.

Inflation continues, increasing by an estimated 19% in 1996 rather than the targeted 17% level; in fact, the average annual price index may go up by 20%. Policymakers have still not found a way to bring inflation down without hurting growth, especially that of exports. Unemployment also will be higher than expected at 14.4% rather than 13.9%. The rate of increase in investment appears to be lower than expected at an estimated 11% rather than the target rate of 13%, down from 19% in 1995. Furthermore, the first quarter of 1996 showed a decline in the economic growth rate, and industrial output is also growing slower at 8.5% than it did last year (9.4%). Based on these disturbing trends, Poland's Central Office of Planning is less optimistic for 1996, though growth will still be higher (at an estimated 5%) than that of the highly developed countries.

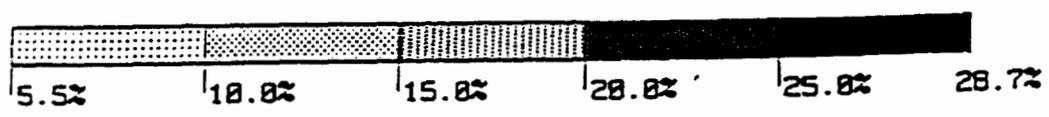
Agricultural production may fall by as much as 8% due to effects of the hard winter and higher prices of grain and fuel in international markets. Domestic demand is lower due to inflation, and the situation in foreign trade, which had been the main driving force of the economy. Just two months into 1996, the trade deficit is almost equal to that of the whole of 1995, because growth in exports is slower this year than last, though imports are increasing. Reversing these trends will require promotion of Polish exports, which will be difficult without

Diagram 1 Unemployment rate by voivodships as at the end of September 1995



The country average 15.0 per cent

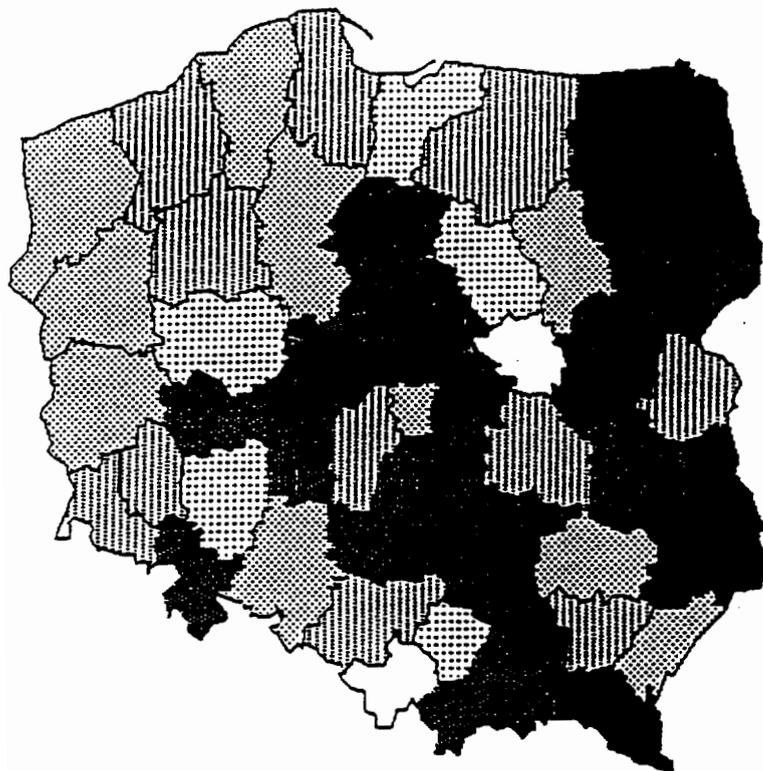
Legend



Source: data provided by GUS

GA

Diagram 3. Foreign capital per capita as a percentage of the national average, as of 31 December 1994



Legend



Source: data provided by GUS

6B

cost-effective quality improvements. Exchange rate policy is also under consideration, as the strong zloty is making exporting unprofitable, and having a negative effect on the financial situation of companies.

Poland's pay-as-you-go social security system poses a major threat to the country's financial stability in the medium-term. Though individual contributions to the system are high, the GOP share of social security payments consumes over a quarter of total annual expenditures. The high social security tax rate (45% of wages) encourages employers and employees to avoid registration and payment. For firms that remain in the formal sector, the high cost of labor caused by this payroll tax motivates employers to substitute capital for labor, reducing jobs.

Proposals to reform the system have been presented to Parliament, and opposition political parties are also formulating their own proposals. While details differ, common elements for many of the proposals include raising the eligibility age for retirement, equalizing the age for retirement between males and females, reducing the portion of retirement to be funded by social security, and instituting, in its stead, a capital-funded private pension system in which retirement benefits would depend on the magnitude of life-time contributions made and the investment return gained on those contributions. Serious debate on these elements is now beginning in earnest. Rather than simply a pro forma restructuring of the social security system that would allow individuals to join voluntary private pension funds (as had been suggested under the GOP's Miller Plan), GOP and Parliamentary proponents of pension fund reform seem to be favoring a more radical reform, incorporating greater changes to the social security system and making membership in privately-managed capital-funded pension schemes mandatory. Should these changes materialize, private pension funds would become major institutional investors, dynamizing and deepening Poland's capital markets and providing long-term finance for needed housing, municipal infrastructure, and industrial investment. This scenario would remove the threat to government finances from an unsustainable social security system. Pension reforms are now being drafted, and pending the outcome, a one year cap on pension growth is in place. The Government's comprehensive pension reform plan has been under preparation for several months, but is still only in outline form and subject to further revisions.

Supplemental private pension policies are already sold in Poland by 14 life insurance companies, with another 5 waiting for licenses from the Ministry of Finance. People with the highest incomes show the greatest interest (20% of private firms' managers, with university educations and monthly salaries over 400 PLN) versus 10% of all adult Poles. More than 2.5 million adult Poles already have insurance policies that entitle them to

an extra pension. More than 75% of adult Poles are uninterested in securing additional incomes after retirement, however, and those that need this most cannot afford it.

Privatization is also still moving slower than expected. In November 1995, the Mass Privatization Program was finally launched after 4 years of debates, and it proved surprisingly popular -- as of May 1996, 13,280,000 Poles had purchased their share certificates. Almost 80% of the State-owned enterprises (SOEs) that existed before the end of 1989 have still not been privatized. There is still no consensus on privatization in the sensitive industries (mining, chemicals, shipbuilding, iron and steel, and non-ferrous metals) and there has been little movement towards privatization in the energy sector. It is uncertain how many companies the Ministry of Privatization will send to the Warsaw Stock Exchange by the end of 1996, but it is clear that 1996 privatization targets, which called for sale of 5-7 enterprises through public share offerings, will not be met.

Poland has seen an impressive increase in privately owned businesses (producing over 56% of GDP and 61% of employment by the end of 1994) and an improved policy climate for the further growth of the private sector, greater competition within the banking sector; development of new capital markets; expansion of such financial products as mortgages, equity issues, and leases; and the introduction of models for environmental improvement, housing privatization, and delivery of key services. All of these efforts have received major U.S. support.

The amount of unregistered economic activity is estimated to be as large as 25% of GDP, resulting in considerable tax evasion. There is also still a lack of confidence in the zloty. The financial system does not meet the needs of rapidly growing private businesses nor of households seeking home finance and other services. Fewer than 50% of households have bank accounts and cash transactions predominate. Resulting savings and investment rates remain low (less than 20% of GDP) compared to other high growth economies and needs. Government paper still dominates capital markets and crowds out private efforts to raise capital.

Local government is a key player in economic development. Poor infrastructure, unserviced land sites, and low quality or availability of basic services hinders new investment, and the housing situation hampers labor mobility. Responsibility for these key economic development aspects is now vested in Poland's 2,500 gminas, though most need assistance to plan, prioritize and finance such investments.

## 2. Other Donors' and Lenders' Assistance to Poland

The European Union appropriately provides the largest and thematically broadest share of technical assistance to Poland (\$1.48 billion from 1990-1995 under its PHARE program, plus \$255 million planned in 1996). The U.S. provides the next largest share of grant assistance (\$846 million through end of FY 96). The U.S. and the EU have developed a collaborative approach in assistance to Polish SMEs and local governments that will be intensified in the FY 96-2000 period (see Annex 4, "USAID-EU Collaboration Paper"). Thirty-five percent of PHARE funds for Poland are devoted to programs of assistance to regions. Future opportunities for USAID-PHARE collaboration in regional privatization and municipal development are under discussion.

The World Bank provided \$5.4 billion (from 1990-1995) plus an expected \$492 million in 1996 in loans, with emphasis on infrastructure improvement in the transport sector (roads, rail, ports), and the European Bank for Reconstruction and Development provides loans for private sector investment (85% of its cumulative portfolio of \$1.16 billion on 12/31/95). USAID's \$10 million of Housing Guarantee Funds leveraged a total of \$73 million from these other lenders towards the development of Poland's mortgage lending system.

The British Know-How Fund provides about \$7 million per year of which about \$1 million supports a small program of assistance to the financial sector and local government. The U.S. collaborates closely with the Know-How Fund in its definition of lessons learned and models that can be rolled out to other local governments.

Most bilateral donors are beginning to convert their relationships with Poland to ones based on building better trade balances and cultural exchanges. Germany, France and Japan finance modest programs focused on scientific and cultural exchanges and growth in trade and investment. For example, Japan provided a total of \$32.7 million of assistance to Poland through end of 1995, and plans to provide an additional \$4.7 million in 1996. In September 1995, Japan acknowledged the success of Poland's debt management and repayment record by reopening its trade credit and guarantee windows to Poland. The Japanese and French export more to Poland than they import from it; both are actively scouting for Polish exports to redress this imbalance. Germany, on the other hand, imports far more from Poland than it exports, and is looking for investment opportunities here.

### **3. USAID Program's Strategic Emphasis**

#### **a. Past Strategic Emphasis and Transition**

Up until the end of FY 95, USAID assistance was spread over 10 of the 11 objectives in the current ENI strategic framework (in Annex 6). Only the ENI Objective 3.1 on "Human suffering and negative consequences of crises are reduced" was not relevant to Poland. In late FY 95 and early FY 96, USAID assessed Poland's current political and economic environment, USAID funding realities for the period FY 1996-2000, past track record of results from USAID investments, other donors' thematic focus, our assessment of U.S. comparative advantage as a donor, and Poland's priorities and needs in the coming years, as a basis for deciding whether to shift strategic emphasis.

As a result of this review, it became clear that a major shift in strategic focus would be needed since USAID would only have four more years of funding to allocate (FY 96-99). Furthermore, this funding would be declining steeply, annually. As a result, we could no longer afford to produce significant and measurable results under so many different objectives. Available funding, and the critical mass of resources needed to achieve major results, dictated that the program should be significantly compressed, starting in FY 96.

Political realities also limited our opportunities for strategic focus. Various sources in the Government of Poland and the donor community made it clear that assistance would not be requested for policy development at the national level. Though USAID had spent almost all of 1995 developing concepts for a Social Sector Restructuring Project, in this light, our planned assistance to social sector restructuring was no longer feasible. This was true even on the technical level. Any comprehensive donor assistance with the technical aspects of national, regional, and local efforts to reform pension and social insurance benefits programs would require a major commitment of resources over a longer term period than USAID will have in Poland. In addition, a high level of political controversy and partisan conflict surrounds the process of building consensus for social sector reform, another reason why concrete measurable results within USAID's assistance time frame would be highly unlikely. The bottom line was that ENI Objective 3.2 "Improved sustainability of social benefits and services" had to be dropped. Assistance to public administration capacity-building at the national and regional levels that had also been planned during early FY 95 was also no longer feasible, due to USAID's funding and timing constraints, and its exclusion from national-level policy dialogue.

USAID's past contributions to Poland's privatization (ENI Objective 1.1) and the legal and regulatory climate for private sector development (ENI Objective 2.2) were significant, and helped establish the foundation for Poland's continued work in these areas with less need for USAID assistance. USAID plans to confine its future assistance to Poland's progress in these areas to results packages subordinated to the higher order strategic objectives of more effective, responsive and accountable local government (S.O. 2.3) in the case of privatization and stimulating private sector development at the firm-level (S.O. 1.3) in the case of legal and regulatory climate.

Considerable discussion was devoted to defining how USAID would address the issue of citizen participation (ENI Objective 2.1), and the decision was reached that we could be most effective (in view of limited remaining time and resources) by focusing on citizen participation under the broader strategic objective of assisting local government to become effective, responsive and accountable. Accordingly, we will not be supporting NGOs in general, as an end in themselves, except as a very limited special initiative under the Embassy Democracy Commission. Our main support to NGOs will come from reorienting our Democracy Networks activity to support NGOs that will influence or collaborate with local governments (ENI Objective 2.3).

Constraints in USAID resources (both program funding and staff) required difficult decisions on priorities and a narrowing, though deepening, of our programmatic focus. Energy sector activities (ENI Objective 1.5) were deemed a lower priority for a number of reasons. First, it has been extremely difficult to mobilize consensus for privatization. Secondly, our assistance to the legislative foundation of the Energy Regulatory Authority (which will be less independent than originally hoped for) is almost completed. Most important of all, other donors' and lenders' resources (World Bank, EU, EBRD) are available for continued work in energy sector restructuring and regulation. The more limited energy sector assistance that we plan to complete under the remaining years of USAID's program in Poland will be focused on moving energy prices towards market levels that support the stimulation of the private sector at the firm-level (S.O. 1.3), to help make production decisions more rational, and costs more competitive.

The other aspect of ENI Objective 1.5 -- environmental soundness -- is no longer an area that needs our support as an objective in itself for a number of reasons. First, the GOP has provided a high level of funding for environmental clean-up, at all levels of government, financed by fines paid by polluters. Secondly, there are a large number of qualified environmental experts working in the GOP. Strategically, however, USAID can be effective in facilitating environmental improvement under two of our primary objectives over the coming years. First, we can work

with decreasing waste in the private sector at the firm-level, thereby reducing production costs and making assisted firms more competitive, under strategic objective 1.3. Secondly, we can assist local governments to integrate improved cost-effective water treatment, solid waste disposal and industrial cleanup into gmina-level privatization and private sector service delivery efforts, all of which can be integrated into our new Local Government Program's comprehensive integrated public-private demonstration models for partner cities (under strategic objective 2.3).

USAID's niche as a donor in Poland lies in providing innovative and flexible grant funding for experimentation at the pilot start-up stage, especially through technical assistance and training. Our decision to reorient our strategic focus was also based on a review of the roles and contributions of other donors to Poland's transition process. Other donors and lenders are channeling major resources into private sector development, including small and medium enterprises, the energy sector, and public infrastructure. For example, the EBRD is a major source of capital for private firms, and both EBRD and the World Bank became major providers of capital for mortgage lending, after initial start-up funds from the USAID Housing Guarantee program. The World Bank's loans are a major source of finance for the upgrading of Poland's infrastructure. The EU PHARE program provides major assistance to small and medium enterprises, the energy sector, and legal and regulatory reforms in a wide range of areas. In contrast, funding for the strengthening of local government is limited or very tightly targeted, leaving major technical assistance needs unmet. The U.K. Know-How Fund provides only \$1 million per year for limited pilot demonstrations in selected towns. EU PHARE focuses mainly on the non-elected regional level, where it funds feasibility studies and general training programs. The EU does not fund direct technical assistance to elected local governments. The World Bank and EBRD both have capital that could be invested in local projects, but their loans are not supported by technical assistance. USAID has assumed a leadership role in local government development, partly because of the limited or ad hoc assistance coming from others.

Taking all of the factors above into account, as well as our past experience, we decided to provide assistance in three areas and define a new mission statement. The extensive results that we have achieved in the past in both the private and financial sectors led us to believe that we should continue our assistance to these two ENI objectives (1.3 and 1.4 respectively) for a number of reasons. First, we are the only or lead donor assisting with many critical aspects of financial sector systems development at the national level, especially establishment of high quality bank inspections, self-regulatory bodies for capital

markets, and the development and testing of a wider range of financial products and services, especially where the U.S. has a comparative advantage, i.e. mortgage finance and municipal bonds. Secondly, though the private sector has taken off, accordingly to macro-level indicators like private sector share of employment, GDP, and industrial production, USAID is well placed to provide selective assistance to the sustainable institutionalization of business training and services, mobilization of businesses' contributions to economic development in municipalities, and completion of the legal framework.

The ENI local government objective (2.3) stood out as an objective that merited the highest level of strategic emphasis during the remaining years of U.S. assistance. Strengthened local governments in partnership with NGOs and private business will have the greatest nationwide impact on economic development, employment creation, and restoration of balance in regional growth. More participatory local government planning and budgeting processes will provide the greatest opportunities and incentives for grassroots democratic involvement and activism.

We noted also that much more attention was needed to the development of sustainable Polish institutions that can continue to support private and financial sector reform and local government capacity-building and local economic growth after the end of USAID assistance. We reoriented the way we planned to deliver all remaining assistance through the year 2000 to ensure that in every case, U.S. and Polish institutions are partnered, and the responsibility for results and their replication and dissemination increasingly shifts into local hands. In this way, long term relationships between U.S. and Polish institutions can be created and sustained, after USAID's departure, by local and U.S. private sector funding.

## **USAID's New Approach and Problems Remaining to be Addressed under Our Three Objectives in FY 1996-2000**

USAID's new mission is to strengthen sustainable institutions and systems that will remain in place to complete Poland's transition to markets, foster participatory democracy and public-private initiatives at the local level, and promote long term U.S.-Polish institutional relationships. The institutions and U.S.-Polish relationships to be developed will fall under three strategic objectives as follows:

S.O. 1.3 "The private sector is stimulated at the firm-level."

Emphasis will be placed on strengthening institutions that can provide training, information and technical assistance for SMEs; and legal, regulatory and judicial reform. Efforts on ENI objectives in energy and environment (1.5), and lobby for legal and regulatory reform (2.2) will be incorporated here as intermediate results focused on stimulating private sector development at the firm-level, rather than as objectives in their own right. Details are provided in the R4 portion of this document. Long term relationships will continue between Polish and U.S. business schools (especially the Universities of Maryland, Minnesota, Central Connecticut State and Illinois).

S.O. 1.4 "A competitive, market-oriented private financial sector is developed."

Under this objective, USAID will help strengthen the central bank inspectorate responsible for bank supervision, the Securities Exchange Commission (for regulating commodities exchanges), and the investment banking departments of Polish banks. USAID will also help establish supervisory and regulatory bodies over private pension funds, and a Credit Rating Agency. USAID will help to create a brokerage house-owned, operated, and self-regulated Over-the Counter market, and a licensed warehouse system. USAID will assist the Warsaw Institute of Banking and the Polish credit union movement to become self-sustaining. Long term relationships will be established between the U.S. Office of the Comptroller of the Currency, the U.S. Securities and Exchange Commission, the American Bankers' Association, the World Council of Credit Unions, and their Polish counterparts.

S.O. 2.3 "Local government is effective, responsive and accountable."

Throughout the activities of the local government program, USAID will be strengthening the capacity of a wide range of Polish institutions, associations, research and academic centers, and consultants. These local institutions will be built partly through direct technical assistance but more significantly,

through their work with USAID as partners in implementing the program. Key to providing a voice for local government issues are the five national associations of Polish municipalities, each representing different municipalities. Each will become stronger in their management and capacity to lobby and influence national policies; in addition, USAID will work with professional associations such as city treasurers, economic development officials, city secretaries/notaries.

These associations will be linked with US counterparts--national and local municipal associations (a strong relationship already exists with Virginia Association of Mayors, for instance) and professional associations, relationships which will endure beyond USAID's presence. Academic curricula will be developed to provide training in urban planning, real estate markets, economic development, local public administration, and municipal finance. Institutions that support local governments will also be strengthened, such as the Municipal Development Agency, responsible for coordinating infrastructure investment, the nonprofit Housing Institute, and various research centers capable of working on local government problems. Increasingly, USAID will be using Polish rather than U.S. consultants in all aspects of its local government program, initially training them through formal training courses, then working side-by-side on specific projects, and eventually using only Polish personnel with strategic advice from U.S. partners.

USAID's strategic emphasis and allocation of resources over the FY 96-2000 period will gradually shift towards support for local government, as national-level policy and institutional targets in private sector development and the financial sector are achieved. In FY 96, excluding Special Initiatives and the Polish-American Enterprise Fund, 44% of USAID funds will go to the private sector, 28% to the financial sector, and 28% to local government. In FY 97, funds will be split as follows: 23% to the private sector, 35% to the financial sector, and 42% to local government. In FY 98-99, the last two years of expected USAID funding, more than half of the budget will be allocated to local government assistance. In FY 98, 22% will go to the private sector, 26% to the financial sector and 52% to local government. In FY 99 funds allocated to local government will increase to 56% of total funds, while 22% will be allocated to the financial sector, and only 14% to the private sector. In FY 99, at Embassy request, 10% of the budget will be reserved for Special Initiatives, to address bottlenecks in Poland's graduation from USAID assistance.

Activities under all three objectives will be interlocking and carefully coordinated under a Local Government Strategy. USAID/Poland will select at least 30 partner cities representative of the range of sizes, economic opportunities, and social problems of Polish municipalities. Approximately 5 of

these cities will be selected from cities where U.S. private sector investment is located. The private sector S.O. team will take responsibility for mobilizing SME development in partner cities. The financial sector S.O. team will provide critical complementary support for the partner cities models by strengthening independent cooperative and commercial banks that will provide SME financing and helping to complete pilot municipal bond issues.

Accordingly, from FY 96 to FY 2000, all assistance will aim at either: (1) developing sustainable institutions that will remain in place to help complete Poland's transition to merger with the EU internal market and more activist participatory democracy, or (2) creating models that these institutions can disseminate, especially for municipal economic development and cost-effective, efficient service delivery, through public-private partnerships; and (3) establishing financial sector supervision, regulation, enhanced competition, services and product diversification at the national level.

Based on the expected schedule for Poland's progress towards EU integration, and the sustained economic growth prospects that EU membership would likely provide, the year 1999 seems the best date to plan for as our last expected year for new USAID funding obligations. An office would need to stay open through 2000 to monitor these final funds, with additional monitoring of the close-out of activities through the Year 2001 from USAID/Washington or a regional office in the field.

The following sections of this chapter lay out the issues remaining to be addressed during the final years of USAID assistance, under each of our strategic objectives.

#### **a) Private Sector**

Poland has seen an impressive increase in privately owned businesses (producing over 56% of GDP and 61% of employment by the end of 1994) and an improved policy climate for the further growth of the private sector; greater competition within the banking sector; development of new capital markets; expansion of such financial products as mortgages, equity issues, and leases; and the introduction of models for environmental improvement, housing privatization, and delivery of key services. All of these efforts have benefitted from major amounts of USAID assistance. Though a number of business management training programs are in place and graduating to self-sufficiency, there is still much to do to develop indigenous business support organizations that will continue to foster private sector growth. Improvements to the business environment also need to be promoted such as selected laws and regulations that affect taxes, energy prices, the bankability of some business proposals, and the ease of new business start-up.

A pro-active GOP SME policy with an extensive legal and regulatory reform agenda is still needed. SMEs need to advocate for an increase in transparency in government, and to shape laws and regulations that are of benefit to business activity.

Major reforms have been implemented such as enactment of laws on the break-up of monopolies, intellectual property rights and procurement, but Poland still relies on antiquated 1934 codes and procedures which do not satisfy the needs of a modern and expanding private sector. Tax collection and assessments are not transparent, predictable or uniformly applied across the country. Transaction costs for conducting business are high and lead to extensive inefficiencies such as skewed resource allocation. The present court system is overburdened and inadequately staffed and lacks the timely information needed to settle commercial disputes. There is still a need for modern laws covering: bankruptcy, collateral and registry of liens, banking and tax laws, as a foundation for fair and efficient competition. Enforceability of both formal and implicit contracts needs more legal support. Development and passage of the new industrial law is needed to consolidate, for the first time, all laws on conducting economic activity (civil and commercial code) and provide modern definitions; establish conditions for entry, operation and exit of firms; exemptions; provisions; permits; licensing; and business procedures requirements. It is the EU's role to work with Poland to make Polish law compatible with EU law.

Major issues face SMEs, especially high interest rates; lack of reliable business support services, especially in rural areas; difficulty in obtaining finance or equity investment for start-up, and the growing necessary minimum initial capital required. In addition, there is insufficient information, technical assistance and training for start-ups. Firms are not fully competitive, because they are often unable to control costs and quality, and lose sales and profits to foreign and domestic competitors who introduce better products or services, or produce at a lower cost. Many SMEs also fail minimal environmental standards and incur noncompetitive substantial production costs from excess resource usage.

To stimulate SMEs' business growth through the use of information, a business information network is needed to advertise the kinds of services available to SMEs, and a network of agricultural commodity market information is needed for agribusinesses and their associations. Private housing developers need advice and assistance with housing finance. The passage of the Energy Law is needed to facilitate energy sector restructuring for privatization; this combined with the World Bank loan for power generation and distribution can move the power sector towards privatization.

## b) Financial Sector

The cash economy is still large and growing, facilitating tax evasion. The financial sector is underdeveloped, slowing the rate of long term savings and investment in the economy. Less than 50% of households even have bank accounts. To address this problem, confidence in financial institutions needs to be strengthened, competition needs to be encouraged in order to reduce financial cost, a wider array of attractive financial products needs to be developed and marketed, geographic access to financial services needs to be improved, and financial markets need to be deepened.

Poland's overall savings and investment levels remain low (less than 20% of GDP) compared to other high growth economies and needs. Development of a competitive, market-oriented private financial sector will contribute to mobilization of savings and, through efficient financial intermediaries, their allocation to the most productive investments. Savings, investments, and even payments are mostly not channelled through Poland's financial system. Fewer than 50% of Polish households possess a bank account; cash transactions dominate. Government paper remains the primary investment of banks and investors, state-owned enterprises and most banks. Hence, private small businesses, which have contributed greatly to Poland's recent rapid economic growth, self-finance start-up and use their retained earnings for expansion.

With inflation rates steadily declining, the climate for improved savings mobilization and increased investment has improved. In Poland, banks occupy the central position in financial intermediation. The paucity of services they offer, be it in making payments, consumer loans and home mortgages, or savings instruments, impedes the amount of savings they mobilize. Moreover, banks are constrained from expanding operations by their large portfolios of non-performing loans, which (albeit reduced through write-offs and debt restructuring) still account for some 20% of loans as against 35% several years ago. Losses sustained by the large Bank For Food Economy further undermine the soundness of the 1,600 banks in the cooperative banking system.

The largest commercial and specialized banks remain state-owned (85% of total bank assets) and their clients are mainly state-owned enterprises. Despite the large number of licensed banks in Poland (over eighty), competition is weak, as the state-owned banks dominate the system and, until privatized, have little incentive or management capacity to compete effectively. Traditional bank lending against assets (including mortgage lending) is constrained by the absence of a modern collateral law, clear land titles, or registry of liens, and undisclosed tax claims have first priority in the disposition of assets in the

event of bankruptcy. Despite four years of assistance from USAID in the drafting and promotion of these laws, Parliament has still not taken any action. As a consequence of the lack of competition, conservatism driven by an overhang of non-performing loans, and insecurity of collateral, bank finance for retail, housing, municipal capital investments and small businesses is largely unavailable. While all large commercial banks claim to be "universal banks", corporate financial services are very under-developed, limiting the role banks play in corporate restructuring and raising capital.

The lack of a warehouse receipt system prevents farmers from securing finance against harvested and stored produce. Further, producers and consumers cannot hedge against future price changes since there are no forward or futures commodity markets.

While nearly 70 companies are now listed on the Warsaw Stock Exchange, Poland's capital market still plays only a minor role in financing equity investment. Only larger well-established companies meet listing requirements. On the positive side, small investor interest in the stock exchange is high, and over 50 brokers serve the market. Further, Poland's National Investment Fund program that privatized 512 state-owned enterprises will increase share ownership and market participation. An Over-the-Counter Market is being formed which promises to provide an alternative and less difficult way for smaller corporations and municipalities to raise capital.

Although bonds can be traded on the Warsaw Stock Exchange, long-term debt financing is rarely available. Only recently has a legal framework for debt instruments such as corporate and municipal bonds been established. The lack of credit ratings makes issue pricing problematic and impedes investor confidence in the new instruments. Further, the paucity of institutional investors, such as insurance companies and private pension funds, limits the pool of long-term savings available to place in long-term instruments such as bonds and mortgages.

As is often the case in financial markets, development of appropriate regulation and supervision over financial institutions has lagged behind. Three hundred of the 350 inspectors of the Central Bank's supervision department have only been used to examine small cooperative banks. None of the large commercial banks has undergone a full bank examination, and reporting requirements and procedures for bank examination are only now being established. The Polish Securities Commission has developed tight rules for public disclosure, brokerage licensing, and investment counselling. Still to be developed are disclosure requirements for Over-the-Counter offerings. Regulatory and supervisory frameworks for private pension funds, insurance companies, commodity exchanges, futures and derivatives all need to be developed.

### c. Local Government

U.S. assistance has contributed to the strengthening of democracy in Poland through its focus on the role of local governments, and the broadening of participation, notably through non-governmental organizations. Much still remains to be done to develop capacity in local government (2,500 "gminas"), especially for revenue generation and budgeting, service delivery, and economic development, and to develop models for public-private partnerships in all of these areas.

Major responsibilities for health, education, housing and other social services are being decentralized to local governments, though revenue-sharing formulas are not calculated to meet these challenges. As a result, the 2,500 cities and towns (known as "gminas") need improved systems for revenue generation and budgeting, public-private partnerships for economic development and improved service delivery at lower cost, and infrastructure finance.

The development of effective, responsive and accountable local government after the fall of communism cuts across a variety of issues central to Poland's young democracy, including roles under decentralized democratic governance, participation in civil society, and the shift in responsibility for the financing as well as management and delivery of services from the national to the local level. These services are key to future economic growth.

During the first four years of independence (1990-94), important legislative and policy reforms accompanied the rapid, radical shift of responsibilities to the municipal level. This included establishment of gmina elections; authorization of significant local revenue generation (30-50%) with the rest of local finances coming from national revenue transfers and subsidies; as well as transfer of substantial authority for the delivery of important services, including primary education, health, housing, transportation, roads and infrastructure investments. This dynamic period was also characterized by the emergence of 12,000 active fledgling non-governmental organizations, focusing mainly on issues of quality of life -- democracy, environment, and social welfare, mostly at the community level. The strong trend towards continued decentralization also included a wave of experimentation with privatization of property and provision of services, cost-recovery and other innovations.

In 1994, the post-communist government slowed and for a time halted the momentum for continued decentralization, as local governments were charged with service mandates, but without adequate resources. This contradiction between inflexible central mandates and inadequate local revenues and management authority extended into most services, for example, when

responsibility for primary schooling was transferred to local governments, without ability to set staff and salary levels. A housing/rent reform law eliminated central rent controls, but continued local liability for income subsidies. A condominium law transfers management responsibility to property owners, including municipalities, but only after locally-financed upgrade of the housing stock.

Recent developments have introduced some new opportunities. A Municipal Development Agency has been created to lobby for municipal interests and serve as a clearing house for technical assistance to cities, and it is growing in strength. The renewed Joint Commission on Municipal Self-Government -- a formal body comprised of representatives of the GOP and the 5 associations of local governments, provides a forum for negotiation on revenue transfer formulas and legislation. A new, exciting initiative involving eighteen municipal governments in south-eastern Poland, has established a pilot "Municipal Public Service Zone" -- an experiment in recreating a "powiat", a historically important mid-level administrative unit akin to a county in the U.S. These new experiments need support and nurturance. Systems of better revenue allocation, budgeting, operational efficiencies in use of local resources, and more strategic and integrated municipal management practices are just some of the continuing needs for local government reforms. Municipalities rarely have access to long term capital for infrastructure. No municipality has borrowed from a bank for infrastructure finance for longer than five years, due to regulatory restrictions and obsolete financial practices of both banks and municipalities. Neighborhood action groups, NGOs and local business associations need to develop collaborative partnerships and alliances with local government. New tax legislation is needed to permit non-government organizations to receive donations and operate as non-profit organizations. Successful models of effective citizen action at the community level in partnership with local government should be widely publicized and adopted.

**C. Vision of Poland in the Year 2000**

**1. Expected FY 2000 Status of Poland in Completing Transition**

**b) Summative Indicators & Targets for FY 2000**

**(1) State owned assets transferred to the Private Sector (S.O. 1.1)**

The Mass Privatization Program (MPP) and the 15 National Investment Funds (NIFs), will have accomplished their goals. NIF universal share certificates will have been distributed to the majority of adult Poles. The NIFs, which will be listed on the Warsaw Stock Exchange, will own the major stake in and manage 512 privatized former SOEs. Fifteen percent of the shares in the privatized firms will have been distributed to their employees. The privatized firms will also be listed on either the Warsaw Stock Exchange or the newly formed Over the Counter Market (OTC). Several energy sector enterprises will be prepared for privatization or privatized by the year 2000.

**(2) Private Sector Development Stimulated at the Firm Level (S.O. 1.3)**

The Polish private sector will have substantially matured by the year 2000. The private sector will be making a significant contribution to economic development at the regional and municipal levels contributing at least 75% to Poland's GDP. It is expected that foreign investment, now at \$2 billion per year, will increase to over \$5 billion per year by the year 2000.

Many legal and regulatory obstacles to SME development will be resolved. Laws with broad and positive impact on the SME sector will have been passed, correctly administered and enforced, covering collateral law and lien registry, bankruptcy, taxes, NGOs, intellectual property, industrial policy, condominiums, rent reform, telecommunications, public procurement, municipal enterprise privatization and consumer protection. An energy law will have been passed and an energy regulatory authority will be established and fully operational. In addition, a number of advocacy activities will have been initiated in support of SMEs by NGOs, government organizations and SME associations, regarding systems of taxation, interest rates, legal and regulatory provisions and the competitiveness of SMEs.

With lower inflation and a more effectively functioning banking system, SMEs will have greatly improved access to commercial credit. This will translate into more dynamic growth in the SME sector by the year 2000. SMEs will have markedly increased their profitability. Both employment and labor productivity will have

increased. Sales by SMEs will increase by 15%-20% in real value. Indigenous business support and training organizations will be providing quality assistance to SMEs. The tax code will be simplified, made more transparent and standardized in its interpretation. This will provide much greater confidence and give more stability to SMEs doing business in Poland. It will help to shrink the informal sector, now making up approximately 20% of all SME activity, to under 10% by the year 2000. On the other hand, women entrepreneurs in the formal sector will increase in numbers through greater access to credit and more business management training opportunities provided to them.

At least eight Polish university-based management training institutions and 30 business support organizations will be self-sustaining. An information network to assist small and medium enterprises in business development will be fully operational. Most enterprises will be using business plans and new management techniques, marketing and production methods in their operations. A growing number of SMEs will be acting as energy service companies implementing energy efficiency projects. At least 10 electric power companies (distribution, generation) will have established modern, commercially-oriented business management systems. Most agribusinesses will have a system for incorporating the analysis of market information into their management decision-making process. They will be supported by fully functioning agribusiness trade associations which will have an information network that distributes their market information to individual agribusinesses.

**(3) Competitive, Market-Oriented Private Financial Sector (S.O. 1.4)**

By the year 2000, Poland will have a fully functioning regulatory and supervisory system to oversee financial markets. This will include a bank supervision unit within the Polish Central Bank capable of conducting at least annual on-site bank examinations of all major banks and of analyzing bank performance reports to pinpoint emerging problems. In the capital markets area, a single regulatory structure will oversee both the securities industry and commodities/futures trading. Self-regulatory bodies overseeing trading and brokers will be fully functioning. Legislation establishing a legal and fiscal environment for private pension funds will be enacted, and a regulatory and supervisory structure will be established and staff trained to insure the safety and soundness of pension fund operations. Internationally compatible credit ratings will be available from a Polish rating agency and will be widely used by Polish institutional investors. Information on bankruptcies and other court actions against individual businesses, the general standing of businesses, and credit histories will be more widely available to potential creditors. Placement of liens on pledged collateral will be easily accomplished and claims rapidly executed. These improvements should result in the public having greater confidence in the financial sector. As a result, overall savings rates should rise with a greater proportion of payments, savings, and finance flowing through the financial system.

Privatization of all major state-owned commercial and specialized banks will be completed. To foster competition, an Over-the-Counter (OTC) Market will be actively serving the needs of lesser known companies and municipalities that need to raise capital. Independent cooperative banking will be a proven viable system and member banks will be operating independently within a democratic, membership-governed system that serves the needs of smaller communities.

Bank training institutions will be self-sustaining, providing courses that meet market-determined needs and earning revenues sufficient for their solvency. Polish banks will offer a full range of corporate finance and investment banking services; they will be active in placing issues on the Warsaw Stock Exchange and the OTC market. Clearance, settlement, and payments systems for banking and capital markets will meet the performance standards of similar institutions in the European Union.

The joint effect of bank privatization, increased competition among debt and equity markets, and improved capabilities will lower the cost of financial intermediation to the benefit of those seeking financing. Banks will be earning only a margin of 2-3% over the cost of funds on basic lending products.

Households, businesses, and government (including municipal bodies) should enjoy easy access to a full range of financial services. These will include:

attractive alternatives for savings (e.g. private pension funds, mutual funds, bank deposits);

efficient means for effecting payments transfers (e.g. debit and/or credit cards);

specialized financing instruments for farmers and small businesses (e.g. loans against warehouse receipts for agricultural commodities, leasing, inventory and receivables finance, small business loans);

lending for housing construction, long-term home mortgages, and mortgage bonds to raise capital for mortgage lending;

bank finance for municipalities and municipal bond financing;

new corporate finance instruments, including corporate bonds, convertible bonds, OTC issues;

futures and derivatives that allow businesses to hedge against price risks in major commodities, foreign exchange, and interest rates.

#### **(4) Local Government**

Local governments will significantly influence national and regional policies. Financial transfers between the national and local levels concerning education, welfare, large cities, equalization, and/or income tax sharing will have improved. Associations of gminas will have improved their capacity to influence central government. These associations will have improved their management and lobbying methods and will be experienced in strategic planning, public relations, information management, and member relationships. Polish consultants will be working jointly with central and local government officials to improve and clarify the framework of policies, laws, and regulations that establish local government's role, responsibilities, and resource levels, including access to long term capital.

Opportunities for broadened participation of public and non-governmental organizations (NGOs) will have strengthened local government in at least 10% of Polish cities and towns. Neighborhood groups, NGOs, and business associations will be involved in gmina economic development initiatives. Self-sustaining NGOs and related institutions will be supporting the further strengthening of NGO collaboration with local

government nationwide over the longer term. Public participation mechanisms will be part of planning and budgeting processes and the contracting of services in at least 10% of gminas nationwide.

Many local governments will have the capacity to efficiently deliver services and manage local resources. A municipal credit system will be functioning, providing long term capital to municipalities through banks and a municipal bond market. Performance standards for good financial and budget management will have been adopted and put in practice in 15% of municipalities nationwide; standards for preparing, financing and managing infrastructure projects will be in use by both municipalities and funding institutions; and pricing and service fees will provide cost recovery and improved efficiency. Thirty cities and towns representative of nationwide conditions with respect to city size, region, and economic opportunities and constraints will have established viable public-private models for more efficient, cost-effective service delivery and economic development, through increased public participation in local government decision-making. These cities will be using long term strategic planning, linked directly to financial analysis and capital and operating budgeting. Appropriate public participation in the planning/budgeting process will also be common practice.

Indigenous mechanisms including nationwide associations, private consultants, and university research institutes will support local government strategic planning and project preparation. They will draw on relationships with U.S. partners, as needed, to help with these continuing efforts. Consultants will be helping gminas to apply tested and proven methods and tools in new integrated ways for economic development and services. All partner cities as well as the associations of gminas, the Joint Commission, and the Municipal Development Agency (MDA) will be actively helping other gminas to replicate their achievements.

Four types of Polish intermediaries will support effective local governance on a self-sustaining basis. These groups will include:

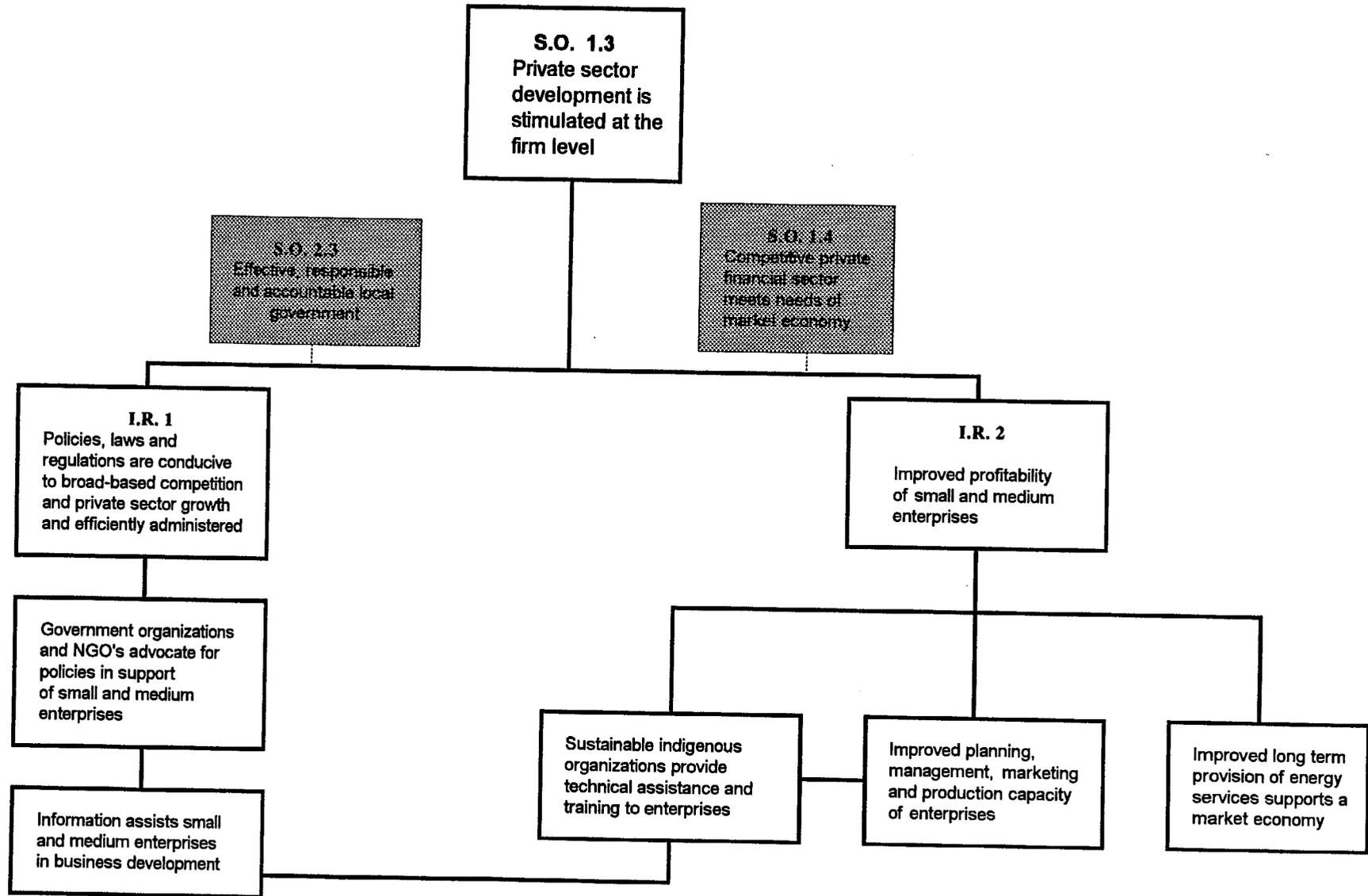
- associations of gmina officials (e.g. Forum of Gmina Secretaries, Forum of Gmina Treasurers) as well as other professional associations (e.g. Association of Economic Development Professionals).
- Polish consultants (individuals and firms)
- Universities and other training institutions (with long term degree programs in place for Urban and Regional Planners and City Managers;
- local institutions capable of conducting urban assessments

and monitoring urban development indicators.

Best Practice Guides will have been distributed to all gminas nationwide, as well as relevant national policy-makers and training institutions. All of them will be available to interested users via Web Site. These Guides will disseminate the most important models for urban development, drawing on case material from the GOP, USAID, FSLD, EU PHARE, U.K. Know-How Fund, and any other relevant efforts. The Guides will be fairly brief documents, focused on specific topics, that provide one or more successful case study experiences and explain how the innovative practices described might be best adapted for implementation in other locations. In some cases, however, they will take the form of either more complete "handbooks," or brief reports on the findings and implications of relevant urban research.

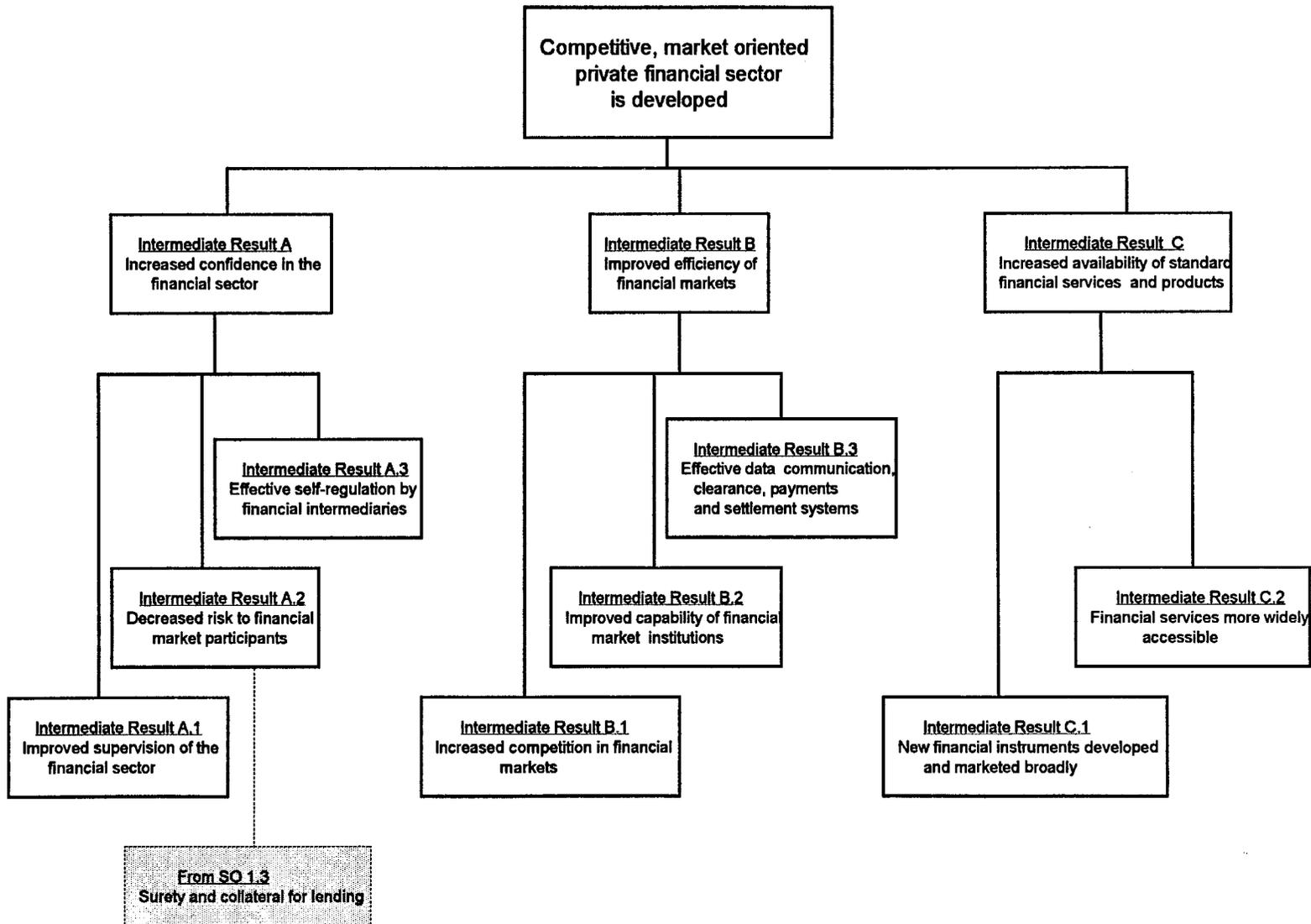
Permanent, self-sustaining, indigenous training institutions will be serving gminas, drawing on the Best Practice Guides to train trainers, the Polish professionals who will subsequently advise gminas, the staffs of gminas, municipal enterprises, and public interest-oriented local NGOs. The Municipal Development Agency will be playing a key clearinghouse role, providing information and technical assistance (including feasibility studies for infrastructure investments) to local governments nationwide.

# POLAND STRATEGIC OBJECTIVE 1.3

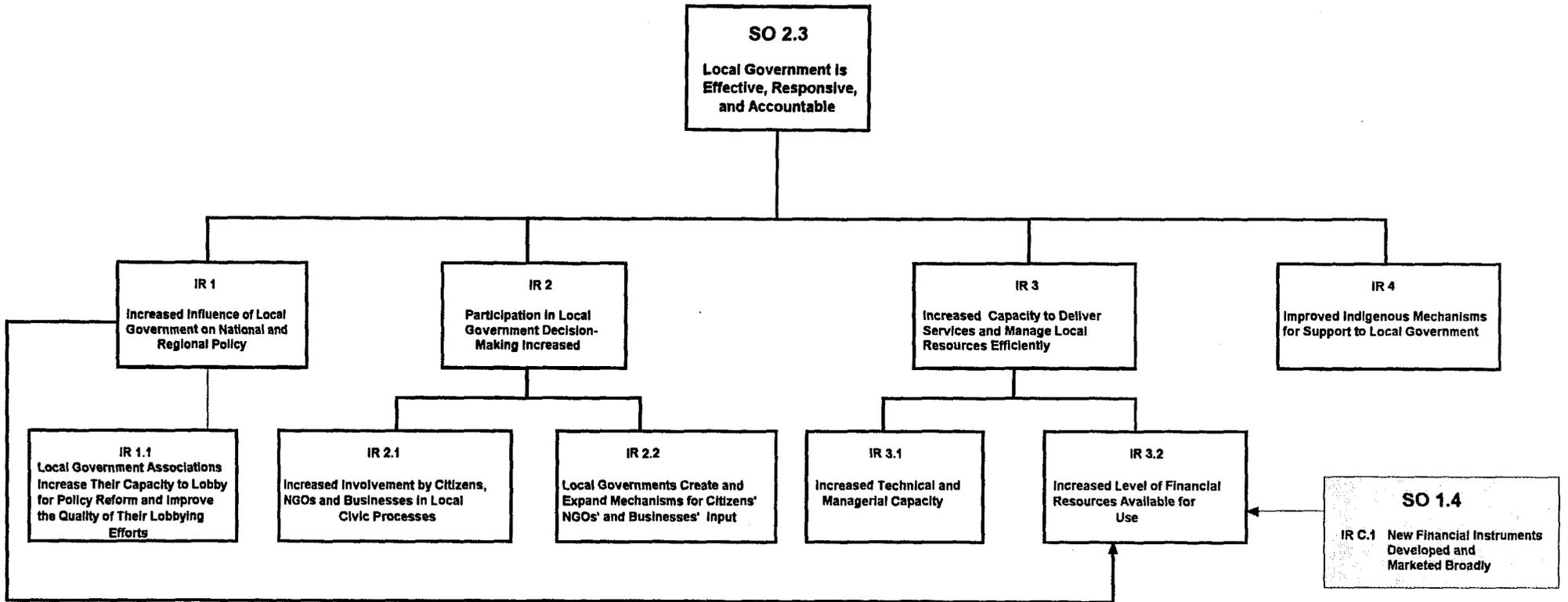


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# Strategic Objective 1.4



# STRATEGIC OBJECTIVE 2.3



**PERFORMANCE ASSESSMENT**

**TABLE 1 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.1: BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000			
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
SO 1.1	State-owned assets transferred to private sector.	1. State-owned enterprises (SOEs) privatized with US technical assistance.	<b>Definition:</b> Of the original number of 8,441 SOEs in the non-financial public sector, ones which are no longer owned by the State Treasury, or voivodships.  <b>Unit:</b> Cumulative # of SOEs privatized with USAID assistance;	1990	0		525										
	SOEs prepared for privatization process.	1. SOEs with capacity for privatization.	<b>Definition:</b> Non-financial sector SOEs' with privatization capacity from training supported by USAID.  <b>Unit:</b> Cumulative # of SOEs trained.	1990	0		293										
COMMENTS/NOTES																	

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## PERFORMANCE ASSESSMENT

**TABLE 1: PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.3: BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT **	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Private sector development is stimulated at the firm level.	1. GDP from private sector.	<b>Definition:</b> Standard economic definition of real GDP.  <b>Unit:</b> Annual % of GDP.	1990 1994	31% 56%	60%	TBD*	62%		65%		68%		70%	
		2. GDP growth rate.	<b>Definition:</b> Standard economic definition of real GDP.  <b>Unit:</b> % of annual change.	1990 1994	-11.6% 5.0%	6%	TBD*	6%		6%		6%		6%	

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT **	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		3. Private sector share of employment	<p><b>Definition:</b> Share of national employment provided by private firms (those with over 51% of shares in private hands).</p> <p><b>Unit:</b> % of labor force employed.</p>	1990 1994	46% 61%		TBD*	TBD*		TBD*		TBD*		TBD*	
		4. Labor force employed in private SMEs.***	<p><b>Definition:</b> SMEs that qualify will meet a standard definition appropriate to Poland. Adopting the Foundation for SME Support definition this will be 1-250 workers subdivided into three categories: a) 1-5, b) 6-50, c) 51-250.</p> <p><b>Unit:</b> % of labor force employed, by categories (a-c).</p>	1995	a) TBD* b) TBD* c) TBD*		a) TBD* b) TBD* c) TBD*	a) TBD* b) TBD* c) TBD*							

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT **	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		5. Active small- and medium-sized enterprises (SMEs).	<b>Definition:</b> SMEs that qualify will meet a standard definition appropriate to Poland. Adopting the Foundation for SME Support definition this will be 1-250 workers subdivided into three categories: a) 1-5, b) 6-50, c) 51-250.  <b>Unit:</b> Cumulative # of SMEs, by categories (a-c).	1995	a) TBD* b) TBD* c) TBD*		a) TBD* b) TBD* c) TBD*	a) TBD* b) TBD* c) TBD*							

**COMMENTS/NOTES**

\* Wherever TBD appears in the table, baseline data and actual data for FY 1996 will be established by the Program Office institutional data collection contractor within 6 months from the date of signing the contract. In some cases we need this info in order to set FY97 and future targets.

\*\* More details on indicator definitions and units of measurement are included in the Performance Measurement Plan for SO 1.3, which is separately available from USAID/Poland.

\*\*\* If data becomes available we would like to use this indicator. It is our understanding that data will be available for 1995.

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TABLE 2 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.3, INTERMEDIATE RESULTS 1: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 1	Policies, laws and regulations are conducive to broad-based competition and private sector growth and efficiently administered.	1. Legislation enacted with broad and positive impact on SMEs.	Definition: Laws and amendments enacted by Parliament that have had broad impact on SMEs.  Unit: # of laws/amendments passed, of the total 14 targeted .	1990	0	6	TBD*	8		10		12		14	
IR 1.1	Government organizations and NGOs advocate for policies in support of small and medium enterprises.	1. Polish associations and/or institutions that lobby on behalf of SMEs.	Definition: Associations / institutions which lobby on behalf of SMEs because of capability transferred by USAID.  Unit: Cumulative # of associations actively lobbying.	1995	TBD*	13	TBD*	15		17		20			

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 1.2	Information assists small and medium enterprises in business development.	1. SMEs using business support services for information on legal and tax issues.	<b>Definition:</b> SMEs sampled nationwide that reported using services of business support organizations for information.  <b>Unit:</b> % of all SMEs that meet definition.	1996	TBD*		TBD*	TBD*		TBD*		TBD*		TBD*	
COMMENTS/NOTES															

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TABLE 3 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.3, INTERMEDIATE RESULT 3: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 2	Improved profitability of small and medium enterprises.	1. SMEs demonstrate increased profitability.	<p><b>Definition:</b> Factors that serve as proxy measures for, or contribute to profitability of SMEs are defined as:</p> <p>a) % change in the real value of sales;                      b) % change in real value of exports;                      c) % increase in employment;                      d) % change in labor productivity.</p> <p><b>Unit:</b> % of SMEs sampled nationwide showing increase in one or more of the above variables.</p>	1996	TBD*		a) TBD* b)TBD* c)TBD* d)TBD*	a) TBD* b)TBD* c)TBD* d)TBD*		a) TBD* b)TBD* c)TBD* d)TBD*		a) TBD* b)TBD* c)TBD* d)TBD*		a) TBD* b)TBD* c)TBD* d)TBD*	
IR 2.1	Sustainable indigenous organizations provide technical assistance and training to enterprises.	1. Indigenous training institutions are sustainable.	<p><b>Definition:</b> Management training institutions that earn sufficient fees for long-term survival.</p> <p><b>Unit:</b> # of management training institutions that meet definition.</p>	1994	0		0	4		6		8			

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		2. Client and member fees support indigenous training and business organizations.	<b>Definition:</b> Customers/members pay for services provided by indigenous training and business support organizations.  <b>Unit:</b> a) Cumulative # of memberships in business organizations; b) # of paid business consultations or training courses.	1996	TBD*		a) TBD* b) TBD*	a) TBD* b) TBD*							
		3. Sustainable business support organizations providing assistance to SMEs.	<b>Definition:</b> Independent organizations that provide business services to SMEs are capable of sustaining services beyond the termination of USAID financial support.  <b>Unit:</b> Cumulative # of sustainable business support organizations.	1996	TBD*		0	0		15		25		30	
IR 2.2	Improved planning, management, marketing and production capacity of enterprises.	1. Enterprises that use business plans, new management techniques, marketing and production methods.	<b>Definition 1 :</b> Private sector SMEs, that use modern business practices.  <b>Unit:</b> a) % of SMEs using these new techniques, according to national sample survey by USAID data collection contractor; b) # (and%) of firms that meet definition out of all USAID-assisted (private) firms.	1996	a) TBD* b) TBD* c) TBD*		a) TBD* b) TBD* c) TBD*	a) TBD* b) TBD* c) TBD*							

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000		
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
IR 2.3	Improved long term provision of energy services supports a market economy.	1. Legal and regulatory framework (Energy Law and Energy Regulatory Agency) established. ****	<b>Definition:</b> a) Energy Law passed by the Parliament, and b) Energy Regulatory Agency established by the GOP.  <b>Unit:</b> both actions (a-b) completed [Yes/No]	1996	a) N b) N	a) N b) N	TBD* TBD*	a) Y b) N		b) Y						
		2. Polish energy prices are covering costs and profits.	<b>Definition:</b> Electric rate-making process in place that requires recovery of costs and reasonable profit levels by energy companies.  <b>Unit:</b> Regulatory body implements the process [Yes/No].	1994	N		N	N		N		N			Y	

**COMMENTS/NOTES** \*\*\*\* Energy Law is also included under the IR 2, Target no.1, concerning legislative initiatives with broad impact on SMEs to be passed by Parliament.

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## PERFORMANCE ASSESSMENT

**TABLE 1 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.4: BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.4	A competitive, market-oriented private financial sector is developed.	1. Real growth in private bank deposits	<b>Definition:</b> Size of claims on private sector as shown on aggregated balance sheets of commercial banks.  <b>Unit:</b> % change in zlotys (PLN)	1993	17 billion PLN		TBD*	TBD*		TBD*		TBD*		TBD*	
		2. Stock Exchange Markets Capitalization as % of GDP	<b>Definition:</b> Market value of securities listed on stock exchanges (including OTC market) divided by nominal GDP  <b>Unit:</b> % of GDP	1994	4%	8%		12%		16%		18%		20%	
		3. Private bank assets as percent of all bank assets	<b>Definition:</b> Privately-owned banks' assets divided by total bank assets, in zlotys.  <b>Unit:</b> % of bank assets	1995	15%	20%		25%		40%		45%		50%	

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		4. Value of personal bank deposits as % GDP.	Definition: Value of zloty deposits of the non-financial sector divided by GDP.  Unit: Annual %	1994	9.8%	10%		12%		13%		14%		15%	
		5. Financial service choices in various geographic areas.	Definition: Number of financial services available in representative geographic categories from the stratified national survey. Menu of financial services to track will be determined in the course of designing the national survey in 1996. Presentation of results will require a matrix of types of financial services and geographical categories.  Unit: # of financial services available per geographic category.	1996	TBD*		TBD*	TBD*		TBD*		TBD*		TBD*	

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		6. Use of financial services by households, businesses and municipalities in various geographical areas	<p><b>Definition:</b> a) Percent of households; b) percent of businesses; and c) percent of municipalities using each type of financial service by geographical category, as defined through the stratified national survey. Menu of the financial services to track will be determined in the course of designing the national survey in 1996. Results will be displayed using matrix.</p> <p><b>Unit:</b> % of respondents from each group (a-c) using each of the financial services by geographic category.</p>	1996	TBD*		TBD*	TBD*		TBD*		TBD*		TBD*	

**COMMENTS/NOTES**

\* TBD - baseline data and actual data for FY 96 will be established by the Program Office institutional data collection contractor within 6 months after signing the contract. In some cases we need this info in order to set FY97 and future targets.

\*\* More details on indicators' definitions and units of measurement are included in Performance Measurement Plan for Strategic Objective 1.4, which is separately available from USAID/Poland.

**TABLE 2 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.4 INTERMEDIATE RESULTS A : BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR A	Increased confidence in the financial sector.	Supervision, self-regulation and guarantee mechanisms in place for banks, securities industry, private pensions and commodity trading.	<b>Definition:</b> Whether or not these mechanisms are in place  <b>Unit:</b> Yes/No			N		N		N		N		Y	
IR A.1	Improved supervision of the financial sector.	1. Quality and coverage of bank supervision system.	<b>Definition:</b> a) Number of major commercial banks audited annually on-site by the National Bank of Poland Supervision Department; b) existence of a uniform system of reporting to the National Bank of Poland  <b>Unit:</b> a) # of major banks audited annually; b) uniform system for bank reporting in operation (Yes/No).	1995	a) 0 b) N	a) 1 b) N		a) 2 b) Y		a) 3 b) Y		a) 5 b) Y			

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000		
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
		2. Quality and coverage of supervision of financial markets.	<b>Definition:</b> a) Disclosure requirements for municipal bonds; *** b) regulation and supervisory institution over: b1) private pension funds, b2) uniform warehouse receipts, b3) commodity exchanges,  <b>Unit:</b> Establishment of the above 4 regulations (a-b3), [Yes/No].	1995	a) N b1) N b2) N b3) N	a) Y b1) N b2) N b3) N		b1) Y b2) Y b3) N		b3) Y						
IR A.2	Decreased risk to financial market participants.	1. Quality and coverage of credit information.	<b>Definition:</b> a) Consumer and business credit rating agency established, b) number of ratings issued, c) credit information available on households, d) credit information available on businesses.  <b>Unit:</b> a) Credit rating agency established; b) # of ratings issued; c) % of households; d) % of businesses.	1995	a) N b) 0 c)TBD* d)TBD*	a) N b) 0		a) Y b) 3 c)TBD* d)TBD*		b) 15 c)TBD* d)TBD*		b) 35 c)TBD* d)TBD*				

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS												
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000				
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual			
		2. Surety and collateral for lending.  [from SO 1.3]	<b>Definition:</b> a) Collateral law allows borrowers to pledge property and allows lenders to be assured of their claims on that property if the borrower defaults. b) Central registry of movables and immovables established.  <b>Unit:</b> a) Collateral law enacted [Yes/No]; b) central registry of immovables and movables in existence [Yes/No].	1995	a) N b) N	a) N b) N		a) Y b) Y										
IR A.3	Effective self-regulation by financial intermediaries.	1. Coverage of financial markets by self-regulatory organizations (SROs).	<b>Definition:</b> Self-regulatory organization created for the Over-the Counter (OTC) market.  <b>Unit:</b> OTC Self-regulatory Organization established [Yes/No].	1995	N	Y												

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		2. Financial intermediaries insured.	<b>Definition:</b> a) Individual deposit insurance for all banks, b) brokerage house guarantee fund established.  <b>Unit:</b> Establishment of the above-mentioned organizations (a-b), [Yes/No].	1995	a) N b) N	a) N b) N	TBD*	a) N b) N		a) N b) Y		a) N		a) Y	
<b>COMMENTS/NOTES</b>															
*** This target overlaps with the target no.2 under SO 2.3 IRI, concerning establishing disclosure guidance for municipal bonds for public trading.															

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**TABLE 3 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.4, INTERMEDIATE RESULTS B : BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000			
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
IR B	Improved efficiency of financial markets.	Private banking and capital market institutions compete as evidenced by reduced transactions costs	<b>Definition:</b> The range of interest rate charged to borrowers minus range of interest rate paid to 3 month depositors by commercial banks.  <b>Unit:</b> Range of difference between borrowing and savings rates measured in % .	1996	6-15%								3-4%				
IR B.1	Increased competition in financial markets.	1. Privatized, independent banks.	<b>Definition:</b> a) Number of privatized state banks, and b) Independent membership-governed cooperative banking system is still functioning.  <b>Unit:</b> a) Cumulative # of banks privatized; b) Continuous functioning of an independent cooperative banking system [Yes/No].	1994	a) 2 b) Y	a) 5 b) Y		b) Y		b) Y		b) Y		b) Y			

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		2. Listings on securities exchanges.	<b>Definition:</b> Stocks listed on a) the Warsaw Stock Exchange and b) the OTC market  <b>Unit:</b> # of stocks (a -b)	1995	a) 70 b) 0	a) 80 b) 3	TBD*	b) 15		b) 50		b) 100			
IR B.2	Improved capability of financial market institutions.	1. Banks using credit analysis, corporate finance & investment banking techniques to raise finance for enterprises and home owners.	<b>Definition:</b> a) Banks offer full range of corporate finance and investment banking services; b) Polish bank training institutions offer courses in one or more of the following: credit analysis, corporate finance, mortgage banking, retail banking.  <b>Unit:</b> a) # of full service banks; b) cumulative # of indigenous bank training institutions.	1995	a) 0 b) 0	a) 0 b) 2	TBD* TBD*	a) 0 b) 2		a) 0 b) 4		a) 6		a) 15	
IR B.3	Effective data communications, clearance, payments and settlement systems.	1. Time required for posting stock orders, clearance, settlement and making inter-bank transfers and payments.	<b>Definition:</b> Electronic communications links for capital markets increase the rapidity of market transactions, interbank transfers and payments.  <b>Unit:</b> Time required for : a) interbank transfers [ in days]; b) settlement and payment for stock orders [in days]; c) placement of bids and offers for OTC in real time [Yes/No].	1995	a) 5 b) no limits	a) 4 b) 3	TBD* TBD*	a) 3		a) 2		a) 1			
				1996	c) N/A	c) N	TBD*	c) Y							
COMMENTS/NOTES															

**TABLE 4 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.4 INTERMEDIATE RESULTS C : BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR C	Increased availability of standard financial services and products.	Financial products available throughout Poland, including home mortgages, construction finance, warehouse receipts, private pension plans, municipal bonds.	<b>Definition:</b> Whether or not these products are available  <b>Unit:</b> Yes/No			N		N		N		N		Y	
IR C.1	New financial instruments developed and marketed broadly.	1. Diversity and volume of financial products.	<b>Definition:</b> a) Licensed grain warehousing system in place; b) mortgage lending; c) municipal bonds; d) commodity futures; e) private pension plans (if voluntary); f) private pension plans (if mandatory).  <b>Unit:</b> a) Licensed grain warehousing system established [Yes/No]; b) cumulative # of approved mortgage loans; c) # of municipalities issuing bonds; d) # of commodity futures listings; e) % of adult population covered by private pension plans (if voluntary); **** f) % of adult population covered by private pension plans (if mandatory). ****	1995	a) N b) 4,000 c) 0 d) 0 e) 0 f) 0	a) N b) 4,800 c) 0 d) 0 e) 0 f) 0	a) TBD* b) TBD* c) TBD* d) TBD* e) TBD* f) TBD*	a) Y b) 6,200 c) 4 d) TBD* e) 0 f) 0		b) 8,700 c) 10 d) TBD* e) 2% f) 15%		b) 13,000 c) 25 d) TBD* e) 10% f) 40%		b) 20,000 c) 50 d) TBD* e) 20% f) 80%	

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS												
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000				
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual			
IR C.2	Financial services more widely accessible.	1. Dispersion of financial intermediaries.	<p><b>Definition:</b> Dispersion is indicated by the number and type of intermediaries , e.g. credit unions; banks capable of large loans in municipalities; banks disbursing housing &amp; construction loans of at least \$10 million per bank.</p> <p><b>Unit:</b> a) Cumulative # of credit unions formed; b) cumulative # of commercial banks with municipal infrastructure loan programs; c) cumulative # of banks disbursing housing &amp; construction loans.</p>	1995	a) 125	a) 175	TBD*	a) 250										
				1994	b) 1 c) 0	b) 3 c) 3	TBD* TBD*											
<b>COMMENTS/NOTES :</b> **** Probably either e) or f) will be N/A in any given year.																		

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**PERFORMANCE ASSESSMENT**

**TABLE 1 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 2.3: BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT**	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 2.3	Local government is effective, responsive, and accountable.	1. Citizens who think that local government is responsive to their needs.	<b>Definition:</b> Adults (> 16 years) queried in national survey of a random representative sample of population.  <b>Unit:</b> % of sample	93	—										
				94	49%	49%	49%	52%		55%		58%		60%	
		2. Citizens who think local government effectively and prudently manages public resources/provides services.	<b>Definition:</b> Adults (> 16 years) queried in national survey of a random representative sample of population.  <b>Unit:</b> % of sample	93	—										
				95	39%	TBD*	TBD*	42%		45%		50%		55%	
		3. Citizens expressing trust in local government.	<b>Definition:</b> Adults (> 16 years) queried in national survey of a random representative sample of population.  <b>Unit:</b> % of sample	93	50%										
				95	58%	60%	60%	62%		64%		66%		68%	

**COMMENTS/NOTES**  
 \* TBD - baseline data and FY96 actual performance data will be established by the Program Office institutional data collection contractor within six months after contract signature. In some cases we will need this info to set FY97 and future targets.  
 \*\* More details on indicators' definitions and units of measurement are included in the Performance Measurement Plan for Strategic Objective 2.3, which is separately available from USAID/Poland.

TABLE 2 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 2.3, INTERMEDIATE RESULT 1: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 1	Increased influence of local government on national and regional policies.	1. Efficiency and/or equity improved in the major revenue transfer formulas.	<p><b>Definition:</b> Six major formulas being monitored: health; education; social welfare; equalization grant; bill of large cities; transfer of income tax. Revenue transfer formulas used to direct central government revenue to the local level.</p> <p><b>Unit:</b> # of revenue transfer formulas out of 6 existing which are changed</p>	1996	0	0	0	0		3		4			
		2. Local models for delivery of infrastructure, housing, environmental and health services are developed, adopted and influencing national policy change.	<p><b>Definition:</b> a) Health sector regulations promote use of contracting and cost-reimbursement mechanisms; b) establishment of disclosure guidelines for municipal bonds for public trading; *** c) regulations for funding not-for-profit housing development; d) rental housing rates close to market values.</p> <p><b>Unit:</b> Pronouncement of national and/or local policy change with respect to above categories (a-d) [Yes/No]</p>	1995	a) N b) N c) N d) N	a)TBD* b)TBD* c)TBD* d)TBD*	a)TBD* b)TBD* c)TBD* d)TBD*	a) N b) Y c) N d) N		a) Y c) Y d) N		d) Y			

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000		
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
IR 1.1	Local government associations increase their capacity to lobby for policy reform and improve the quality of their lobbying efforts.	1. Change in the quality of information/analyses prepared by local government associations.	<b>Definition:</b> Official documents prepared by associations for public scrutiny. Implementor will undertake survey.  <b>Unit:</b> Over 50% of Parliamentarians report improvement in quality of documents [Yes/No].	1996		TBD*	TBD*	N		Y						
		2. Performance monitoring and feedback mechanisms established by associations representing local governments and their professional employees.	<b>Definition:</b> Clearly defined mechanisms for monitoring and evaluation are used so that members can rate associations' performance and define needs for their services.  <b>Unit:</b> # of local associations with such mechanisms in place.	1995	0	0	0	0		4		6				
<b>COMMENTS/NOTES</b> *** This indicator overlaps with indicator no.2 under SO 1.4 IR A1, concerning disclosure requirements for municipal bonds.																



TABLE 3 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 2.3, INTERMEDIATE RESULT 2: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 2	Participation in local government decision-making increased.	1. Gminas which have their budgets/ strategic plans developed with participatory input from citizens, NGOs, and private businesses.	<p><b>Definition:</b> Gminas which have at least one of their major documents such as budget or strategic plan developed with citizens' /private sector's / NGOs' participation (like public budget hearings based on the published draft budget, etc.)</p> <p><b>Unit:</b> % of gminas surveyed nationwide that meet definition, and % of partner cities that meet definition. ****</p>	1996		TBD*	Nationally TBD*	Nationally 10%		Nationally 15%		Nationally 20%		Nationally 25%	
							Partner Cities: TBD*	Partner Cities: 70% (7/10)		Partner Cities: 75% (15/25)		Partner Cities: 80% (20/25)		Partner Cities: 83% (25/30)	

**COMMENTS:** \*\*\*\* The number of partner cities will be changing throughout the life of the program affecting the denominator of percent calculations, therefore the actual figures for each year are provided in parentheses below the percents.

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS															
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000							
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual						
		2. Public policy-oriented NGOs cooperating with, or influencing local government.	<p><b>Definition:</b> Survey of identified public policy NGOs. Cooperation defined in terms of level of co-financing, contractual agreements, or (for advocacy functions) - involvement in debates on local issues and in lobbying activities, etc. Will be measured nationwide and in the partner cities.</p> <p><b>Unit:</b> % of NGOs identified as public policy-oriented surveyed nationally, that are cooperating with, or influencing local governments (on annual basis), based on self-assessment; and</p> <p>% of NGOs recognized as public policy-oriented from the partner cities, that meet definition.</p>	1996		Nationally TDB*	Nationally TDB*	Nationally 5% over 1996 baseline		Nationally 5% over 1997		Nationally 5% over 1998		Nationally 5% over 1999		Partner Cities: TBD*	Partner Cities: TBD*	Partner Cities: TBD*	Partner Cities: TBD*	Partner Cities: TBD*	Partner Cities: TBD*

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 2.1	Increased involvement by citizens, NGOs and businesses in local civic process.	1. NGOs that are sustainable and have demonstrated capability to work with, and / or influence local government in the field of environment, social services, economic development and democracy.	<p><b>Definition:</b> S.O. Team will set criteria for defining self-sustainability, including: existence of organization's strategic development plan, diversity of its funding sources, percent of its funding coming from non-USAID especially local sources, degree to which organization has already secured funds for continuation of activity for at least one year beyond the USAID grant, size of membership.</p> <p><b>Unit:</b> # of USAID-assisted organizations that meet definition.</p>	1996		TBD*	TBD*	40		70		90		100	
		2. Self-sustaining indigenous training and service organizations capable of assisting NGOs to develop public policy-oriented initiatives at the local level.	<p><b>Definition:</b> Criteria for self-sustainability will be set by the S.O. Team. They will include: level of institutional and financial sustainability of organizations, number of clients served, level of customer satisfaction (scale measure). Also, see above criteria of sustainability.</p> <p><b>Unit:</b> # of organizations that meet definition.</p>	1996	TBD*	TBD*	TBD*			7					

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		3. Mechanism(s) established for disseminating best practices in NGO involvement in solving problems at the local level.	Definition: NGO support organizations disseminate best practices in NGO involvement at the local level.  Unit: % of gminas in contact with "best practice" models.	1995	0	TBD*	TBD*	0%		20%		25%		50%	
		4. Cities in which community activism models have been successfully replicated.	Definition: Cities in which community activism models are replicated. S.O. Team will develop specific criteria to assess compliance with the definition.  Unit: # of cities that meet definition.	1995	0	TBD*	TBD*	3		6		9		12	
IR 2.2	Local governments create and expand mechanisms for citizens', NGOs', and businesses' input.	1. Gminas with demonstrated experience in solving local problems through participatory processes.	Definition: Demonstrated experience (verified by examining case studies) in solving local problems through the participatory process with citizens and NGOs.  Unit: % of gminas surveyed nationwide that meet definition (according to self-assessment), and  # of partner cities that meet definition ****	1996	Nationally TBD*  Partner Cities: TBD*	Nationally TBD*  Partner Cities: TBD*	Nationally TBD*  Partner Cities: TBD*	Nationally TBD*  Partner Cities: 70% (7/10)		Nationally TBD*  Partner Cities: 75% (15/20)		Nationally TBD*  Partner Cities: 80% (20/25)		Nationally TBD*  Partner Cities: 83% (25/30)	

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		2. Gminas with specific support mechanisms for NGOs and citizens' initiatives.	<p><b>Definition:</b> Specific support mechanisms include: budgets with line items that support citizen initiatives; or policies of providing facilities to NGOs, or similar formalized commitments of resources.</p> <p><b>Unit:</b> % of gminas surveyed nationwide that meet definition (by self-assessment), and % of partner cities that meet this definition ****</p>	1996		Nationally TBD*	Nationally TBD*	Nationally TBD*		Nationally TBD*		Nationally TBD*		Nationally TBD*	
						Partner Cities: TBD*	Partner Cities: TBD*	Partner Cities: 30% (3/10)		Partner Cities: 50% (10/20)		Partner Cities: 60% (15/25)		Partner cities: 66% (20/30)	

**COMMENTS/NOTES:** \*\*\*\* The number of partner cities will be changing throughout the life of the program, affecting the denominator of percent calculations, therefore the actual figures for each year are provided in parentheses below the percents.



TABLE 4 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 2.3, INTERMEDIATE RESULT 3: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 3	Increased capacity to deliver services and manage local resources efficiently.	1. Gminas using non-subsidized bank or bond financing, or co-financing for infrastructure and economic development.	<p><b>Definition:</b> Gminas that issued a) bonds, or b) obtained non-subsidized long-term (over 5 years) bank loans to finance investments (public and public-private) that generate economic development in the gmina and/or improve infrastructure.</p> <p><b>Unit:</b> # of gminas surveyed nationwide that meet criteria a), and % of gminas that meet criteria b), and # of partner cities that meet criteria a), and % of partner cities that meet criteria b). ****</p>	1995	Nationally a) 0 b) TBD*	Nationally a) TBD* b) TBD*	Nationally a) TBD* b) TBD*	Nationally a) TBD* b) TBD*		Nationally a) TBD* b) TBD*		Nationally a) TBD* b) TBD*		Nationally a) TBD* b) TBD*	
		2. Gminas using public-private partnerships for service delivery (including housing) and economic development.	<p><b>Definition:</b> Gminas that a) entered into any legal form of public-private (including NGO) partnership in municipal service delivery and/or economic development; b) contracted out with private sector and/or NGOs for services..</p> <p><b>Unit:</b> % of gminas surveyed nationwide, that meet criteria (a-b), and % of partner cities that meet criteria (a-b). ****</p>	1996	Nationally a) TBD* b) TBD*	Nationally a) TBD* b) TBD*	Nationally a) TBD* b) TBD*	Nationally a) TBD* b) TBD*		Nationally a) 12% b) 10%		Nationally a) 25% b) 20%		Nationally a) 35% b) 30%	
					Partner Cities: a) TBD* b) TBD*	Partner Cities: a) TBD* b) TBD*	Partner Cities: a) TBD* b) TBD*	Partner Cities: a) 6% b) 5%		Partner Cities: a) 55% b) 50% (11/20) (10/20)		Partner Cities: a) 84% b) 80% (21/25) (20/25)		Partner Cities: a) 100% b) 100% (30/30) (30/30)	

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		3. Gminas using elements of program/task budgeting and/or capital investment planning.	Definition: Gminas with: a) budget document which distinguishes program/task costs; b) capital investment budget/plan adopted by Gmina Executive.  Unit: % of gminas surveyed nationwide that meet criteria a) and b), and % of partner cities that meet criteria a) and b). ****	1996		Nationally a) TBD* b) TBD*	Nationally a) TBD* b) TBD*	Nationally a) 1% b) 1%		Nationally a) 2% b) 2%		Nationally a) 5% b) 4%		Nationally a) 15% b) 12%	
		4. Gminas which show improvement in quality of service offered to citizens.	Definition: Six major sectors concerned are: a) housing construction; b) municipal housing management; c) local health care; d) solid waste disposal; e) water quality; f) waste-water treatment.  Unit: # and (%) of gminas surveyed nationwide that meet at least one of the relevant criteria, and # and (%) of partner cities that meet at least one of the relevant criteria.	1996		Nationally TBD*	Nationally TBD*	Nationally 10 ( < 1%)		Nationally 50 (2%)		Nationally 150 (6%)		Nationally 250 (10%)	
		1. Gminas where local resource allocation decisions are based on strategic plans.	Definition: Gminas using strategic planning in resource and property allocation (monies, land).  Unit: % of gminas surveyed nationwide that meet the definition (by self-assessment), and % of partner cities that meet definition. ****	1991	0	Nationally TBD*	Nationally TBD*	Nationally TBD*		Nationally TBD*		Nationally TBD*		Nationally TBD*	
IR 3.1	Increased technical and managerial capacity.					Partner Cities: TBD*	Partner Cities: TBD*	Partner Cities: 50% (5/10)		Partner Cities: 60% (12/20)		Partner Cities: 64% (16/25)		Partner Cities: 66% (20/30)	

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LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		2. Gminas/cities with improved capacity to plan, finance, and manage infrastructure projects.	<p><b>Definition:</b> Improved capacity as evidenced by the fact that gminas have implemented projects or have prepared project plans that meet MDA "project feasibility criteria", or other regionally/nationally approved criteria.</p> <p><b>Unit:</b> % of gminas surveyed nationwide that meet definition, and % of USAID-assisted gminas that meet definition.</p>	1995	Nationally TBD*  USAID assisted gminas: 6	Nationally TBD*  USAID assisted gminas: TBD*	Nationally TBD*  USAID assisted gminas: TBD*	Nationally TBD*  USAID assisted gminas: 50%		Nationally TBD*  USAID assisted gminas: 70%		Nationally TBD*  USAID assisted gminas: 80%		Nationally TBD*  USAID assisted gminas: 90%	
		3. Gminas in which the per unit cost of services is reduced.	<p><b>Definition:</b> Services include public transport, health, water provision, housing, sewage collection, solid waste, etc.</p> <p><b>Unit:</b> % of gminas surveyed nationwide in which the per-unit costs of at least two of the relevant services are reduced, and % of partner cities in which the per-unit costs of at least two of the relevant services are reduced. ****</p>	1996	Nationally TBD*  Partner cities: TBD*	Nationally TBD*  Partner cities: TBD*	Nationally TBD*  Partner cities: TBD*	Nationally TBD*  Partner cities: 20% (2/10)		Nationally TBD*  Partner cities: 25% (5/20)		Nationally TBD*  Partner cities: 60% (15/25)		Nationally TBD*  Partner cities: 66% (20/30)	

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 3.2	Increased level of financial resources available for use.	1. Gminas which have accelerated business investment.	<p><b>Definition:</b> Business investment increase is going to be measured: (a) by increase in cumulative number of SME firms; (b) by increase in number of building permits per year.</p> <p><b>Unit:</b> % of gminas surveyed nationwide which have: (a) noted net increase in number of SME firms on annual basis, (b) noted relative increase in number of building permits per year, and % of partner cities which meet above criteria (a-b). ****</p>	1996	Nationally a) TBD* b) TBD*  Partner Cities: a) TBD* b) TBD*	Nationally a) TBD* b) TBD*  Partner Cities: a) TBD* b) TBD*	Nationally a) TBD* b) TBD*  Partner Cities: a) TBD* b) TBD*	Nationally a) TBD* b) TBD*  Partner Cities: a) 20% (2/10) b) 30% (3/10)		Nationally a) TBD* b) TBD*  Partner Cities: a) 25% (5/20) b) 35% (7/20)		Nationally a) TBD* b) TBD*  Partner Cities: a) 35% (7/25) b) 40% (10/25)		Nationally a) TBD* b) TBD*  Partner Cities: a) 40% (12/30) b) 50% (15/30)	
		2. Gminas in which housing and health subsidies are more transparent and targeted to the truly needy.	<p><b>Definition:</b> Housing and health subsidies are targeted to low income people.</p> <p><b>Unit:</b> % of gminas surveyed nationwide, which meet at least one of above criteria, and % of partner cities that meet at least one of the criteria. ****</p>	1996	Nationally TBD*  Partner Cities: TBD*	Nationally TBD*  Partner Cities: TBD*	Nationally TBD*  Partner Cities: TBD*	Nationally TBD*  Partner Cities: 30% (3/10)		Nationally TBD*  Partner Cities: 50% (10/20)		Nationally TBD*  Partner Cities: 48% (12/25)		Nationally TBD*  Partner Cities: 56% (17/30)	

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		3. Gminas in which service fees/tariffs are structured to promote cost recovery and market pricing.	<b>Definition:</b> Fees for health services, provision of water, heating, sewage, garbage collection and public transport must provide cost recovery. (Specific criteria to be further defined by the S.O. Team). Any subsidies have to be transparent.  <b>Unit:</b> % of gminas surveyed nationwide, which meet at least two of the relevant criteria (by self-assessment), and % of partner cities that meet at least two of the relevant criteria. ****	1996	Nationally TBD* Partner Cities: TBD*	Nationally TBD* Partner Cities: TBD*	Nationally TBD* Partner Cities: TBD*	Nationally TBD* Partner Cities: 50% (5/10)		Nationally TBD* Partner Cities: 50% (10/20)		Nationally TBD* Partner Cities: 52% (10/25)		Nationally TBD* Partner Cities: 53% (16/30)	
		4. Gminas realizing cost savings from restructuring and/or private participation in delivery of municipal services.	<b>Definition:</b> Results of restructuring and/or private participation in municipal services as measured by: a) Cost savings in US\$ b) % of gminas that reduced costs in municipal services delivery  <b>Unit:</b> a) US\$ b) %	1996	a) TBD* b) TBD*	a) TBD b) TBD	a) TBD b) TBD	a) TBD b) 30% (3/10)		a) TBD b) 25% (5/20)		a) TBD b) 32% (8/25)		a) TBD b) 50% (15/30)	

COMMENTS/NOTES: \*\*\*\* The number of partner cities will be changing throughout the life of the program, affecting the denominator of percent calculations, therefore the actual figures for each year are provided in parentheses below the percents.

TABLE 5 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 2.3, INTERMEDIATE RESULT 4: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 4	Improved indigenous mechanisms for support to local government	1. Successful replication of USAID and other donors' models with local government co-financing and the involvement of local consulting firms.	<p><b>Definition:</b> Local consulting services (for-profit and NGO) are available and utilized by local governments to replicate best practice models with their own funding.</p> <p><b>Unit:</b> Cumulative # of successful project replications that involved local consulting firms and local financing.</p>	1996	TBD*	TBD*	TBD*	5		15		20		50	
		2. Institutions of higher education offer degrees in regional / urban planning and city management.	<p><b>Definition:</b> Institutions of higher education establish degree programs in regional/urban planning and city management.</p> <p><b>Unit:</b> Cumulative # of degree programs that meet definition.</p>	1996	TBD*	TBD*	TBD*	1		2		3		4	

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## II. FY 98 Results Review and Resource Request (R4)

### A. Results Review

#### 1. Strategic Objective 1.1: State-owned assets transferred to the private sector

**Overall Progress towards this Objective:** Significant progress has been made toward this objective so that it should be achieved. Poland is fully aware of technical privatization requirements and models. The pace of privatization will depend upon political will.

Poland is moving to a free market economy on the Western European model. A major remaining element in this transition is the transformation of 6,222 state-owned enterprises (SOEs) into privatized, restructured and competitive businesses with access to capital and new export markets, and improved marketing and financial planning skills.

Poland has made a good start in privatizing SOEs. With USAID assistance, Poland's Mass Privatization Program (MPP) has privatized 512 state-owned enterprises, whose assets are spread among fifteen National Investment Funds. The National Investment Funds (NIFs) own the major stake in and manage the SOEs in the Mass Privatization Program. To ensure widespread individual participation in stock ownership nationwide, the Polish Government is distributing 60% of NIF share certificates to all adult Poles; and an additional 15% of the shares have been assigned to the employees of the MPP companies. Polish citizens buy shares in one or more of the companies for a nominal fee (20 zlotys or approximately \$8.00). Since January 1995, 13,280,000 Polish citizens have collected their share certificates. The market value of shares has already appreciated by 300-500%.

Poland has privatized 21 industrial sub-sectors. Of the 8,441 state-owned enterprises registered in 1990, 2,219 have been privatized by employee leases, liquidations that led to the sale of assets to private entrepreneurs, or other means (including the Mass Privatization Program). Approximately 60% of the 6,222 SOEs not yet privatized are managed or owned by voivodships (regions) and local governments.

#### **USAID's Significant Contributions to Progress under this Strategic Objective:**

With USAID assistance, the Ministry of Privatization designed the conceptual and regulatory framework for the Mass Privatization Program, negotiated the compensation agreements for National Investment Fund Managers, and designed the share distribution system.

Over 60% of the 6,222 SOEs not yet privatized are managed or owned by voivodships and local governments. USAID has helped stimulate interest in the privatization of these locally-managed SOEs by conducting business skills and privatization training. USAID sponsored training on the benefits of privatization for over 1,200 employees and managers representing 293 state-owned enterprises (SOEs), including voivodship (regional) officials and SOE managers and employees. Two-thirds of these SOEs decided to privatize following the training. To respond to this demand, USAID has recently begun and will soon complete a pilot project for the privatization of 12 state-owned enterprises at the regional level.

The Ministry of Industry and Trade and the Association of Transmission and Distribution Companies selected 3 power distribution companies (Torun, Poznan, and Gliwice) to be prepared for privatization as models for future roll-out with USAID support. USAID-funded consultants will present the final privatization recommendations (including valuations of each company) to the GOP for consideration by end of September 1996 and will support internal restructuring aimed at improving efficiency and encouraging a commercial orientation that will lead towards privatization thereafter.

State-owned cattle farms have started to privatize their artificial insemination services. In Olecko, 300 inseminators were privatized. The American Breeders Service, which USAID funded to assist in this effort, also created a revolving fund that will continue to support further privatization of these services.

#### **Future Strategy for Strategic Objective Achievement**

As described earlier, the pace of privatization of large national SOEs will depend on the political will of the GOP. USAID contribution to the privatization of SOEs will be completed by March 1997. This will include a pilot program to privatize 12 SOEs owned by regional authorities.

USAID will also have assisted the Ministry of Privatization to identify, clarify, and prioritize privatization actions by identifying structural, legal, regulatory, and political impediments to privatization through a study of five sensitive industries. Political consensus still needs to be mobilized in order to proceed with the privatization of these industries, and this will be difficult to achieve, due to national policy considerations including impact on structural unemployment, strategic resources, lack of international competitiveness, and public support for protectionism.

USAID-funded consultants are assisting in the preparation of

three key elements of Polish power sector privatization including: (1) a "white paper" on demopolization and privatization of power enterprises and (2) "Energy Investment Funds" that are to serve as a tool for privatization. The World Bank, in cooperation with USAID, is initiating a loan for power generation and distribution that will facilitate privatization by improving customer service and attracting foreign investors.

## II. FY 98 Results Review and Resource Request (R4)

### A. Results Review

#### 2. Strategic Objective 1.3: Private Sector Development Stimulated at the Firm-Level.

**Overall Progress towards this Objective:** Significant progress has been made toward this objective so that it should be achieved.

**Overall Progress to Date by Intermediate Result:**

**Intermediate Result 1: Policies, Laws and Regulations are Conducive to Broad-Based Competition and Private Sector Growth and Efficiently Administered.**

Legal and regulatory reforms have lagged behind Poland's rapid economic and political changes since 1990. Populist sentiments, the real requirements of a rapidly growing private sector, and the desire to integrate with the EU were often in conflict; the result was positive but uneven movement. Some reforms required for a level playing field such as anti-monopoly legislation and Intellectual Property Rights law were passed relatively quickly.

The USAID program in support of legal and regulatory reform, although relatively small, is one of the two most important donor programs that have focused on a number of important legal and regulatory reforms to facilitate private sector growth. With USAID assistance, Poland established an independent Antimonopoly Office which, with help from the Department of Justice and the Federal Trade Commission (FTC), institutionalized investigative functions and adjudicative skills and ruled on 300 anti-monopoly cases. An active consumer protection association was also established with assistance from USAID and the FTC. USAID-funded advisors assisted with enactment of the Condominium Law which provides a legal basis for the development of private real estate markets. USAID also assisted in the enactment of the Rental Reform Law, which began to raise housing rents to market levels, while protecting low-income tenants. Overall, USAID's efforts in support of legal reform have been a major factor in improving the business climate in Poland.

**Intermediate Result 2: Improved Profitability of SME Enterprises**

Small and medium enterprises are becoming a key element of economic growth and the main source of employment. Over the years 1990 - 1994, the number of people employed in newly created SMEs increased by about 1.5 million. Private sector production growth has been several times higher than that of the public sector over the last few years. In rural areas, SME development in agricultural processing and non-agricultural services has

resulted in a reduction in the rate of migration to urban centers. As a result, the approximately two million SMEs in Poland employ over 60% of the labor force, and generate over 56% of the GDP, a significant contribution to budget revenues and new jobs. This vitality directly alleviated some of the unemployment and resulting negative social effects that came from the restructuring and privatizing of state-owned enterprises. Significant constraints on the development of SMEs still exist, especially those caused by the inadequate legal and regulatory system, and by inadequate professional qualifications and insufficient financial resources within the SMEs themselves.

**USAID's Significant Contributions to Progress under this Strategic Objective:**

**Intermediate Result 1: Policies, Laws and Regulations are Conducive to Broad-Based Competition and Private Sector Growth and Efficiently Administered.**

The need for reforms in the financial sector (Strategic Objective 1.4) has been partially addressed under Strategic Objective 1.3 by the drafting of a modern collateral law which, after four years of discussion, and a public relations campaign, is now finally under consideration by the Polish Parliament. This and a complementary registry law would create the legal framework for secured asset-based lending, and thus promote greater private sector investment. USAID funding is supporting the review of legal and regulatory barriers to the growth and development of "para-banking" (the offering of bank-like services by institutions other than banks) in Poland. Lawyers, judges and government officials have been trained in business law and practices; bankruptcy proceedings; leasing; mergers and acquisitions; contract law; copyrights; trademarks; and arbitration. Passage of the Public Procurement Law and the training of civil servants in its application received major USAID support. USAID has also helped with the passage by the Council of Ministers of the GOP Policy on Small and Medium-Size Enterprises. This created the first Polish public/private institution that addresses SME issues and promotes a legislative agenda that will ensure the healthy growth of the private sector.

USAID-funded activities resulted in establishment of Poland's first small business lobbying organization. Its influence was tested during a December 1995 parliamentary debate on new tax laws which culminated in a presidential veto of two proposed bills (Law on Personal Income Tax and the Lump-Sum Taxation Act); both bills would have adversely affected small- and medium-size businesses in Poland. Similar lobbying efforts are underway to defeat the proposed Law On Economic Self-Government, which would force all businesses to join designated associations, and amendments to the Law on Foundations that would limit the ability of foundations to conduct economic activity.

USAID assistance has resulted in the rapid growth and development of independent judicial and bar associations, and a qualified pool of lawyers and judges trained in modern commercial law practices. Under USAID-sponsorship, all Polish judges specializing in bankruptcy have been trained in bankruptcy procedures and case-load management.

Major pieces of real estate development legislation have been reformed, consolidated and modernized, with USAID support. These include the enactment of a Condominium Law, a key building block in the development of private property markets; enactment of a Rental Reform Law, which begins to raise housing rents to market levels while protecting low income tenants; implementation of a housing allowance program; and assistance with implementation of a law that establishes not-for-profit housing associations. An advocacy and support organization for small and medium scale housing developers, the Polish Association of Home Builders, has been created in order to lobby for the legal and regulatory framework necessary for private housing developers.

#### **Intermediate Result 2: Improved Profitability of SME Enterprises**

USAID assisted over 700 Polish small businesses to develop business plans, and/or improve their marketing and overall enterprise management skills. Over 300 private business owners received management training in the U.S. With USAID funding, a business development and training center (OIC-Warsaw) was established, training 150 entrepreneurs per year in management, and offering assistance to firms in preparing loan applications and preparing business plans. Over 50 Polish business consultants expanded their skills by working directly with USAID-funded advisors, and over 2,000 Polish consultants improved their expertise by participating in USAID-financed training seminars. With USAID funding, three regional SME business information centers were established and are providing business information to SMEs.

Polish capacity to provide training in business and economics has been strengthened by USAID financing for the establishment of permanent, top quality management training institutions with trained faculty; modern curricula and teaching material; and facilities for short, medium and long-term programs for entrepreneurs, executives, public administrators, and local decision-makers. Five fully self-sufficient centers are located in Warsaw, Olsztyn, Wrocław, Białystok, and Rzeszów. These centers operate on a fee-for-service basis and offer training to participants from all over Eastern and Central Europe. Some of the centers have organized additional branches and satellite offices, and deliver special programs in privatization, finance, investments, etc. For example, the Wrocław Center also delivers programs in Legnica, Jelenia Góra, and Lublin; and it offers tailored courses for bankers, copper mine managers, and other

special clients. Its year-long "Institute of Business Studies Certificate Program" has been successfully replicated at the Kraków Technical University. A new management training center is being organized in Łódź. A train-the-trainers program in Gdańsk is developing faculty for training institutions in northern Poland.

Three hundred agribusinesses and individuals employed in agriculture increased profits, received bank loans, attracted investors, privatized and/or strengthened their abilities in marketing, management, production, and finance. USDA advisors strengthened extension services in 37 out of 49 extension centers in Poland under USAID funding and developed capacity in six business planning centers to help small farmers and rural businesses develop business plans. Agribusiness management consulting groups trained at the Olsztyn and Krakow agriculture universities are now able to secure fee-for-service business.

To date, 52 USAID-supported Waste Minimization projects helped 18 Polish companies achieve annual savings of \$7.2 million. This type of program offers enormous opportunities to achieve major cost savings in Poland's industries, making them more internationally competitive.

USAID-provided technical assistance facilitated conversion of the regional CENTREL power grid (comprising Poland, Slovakia, Czech Republic and Hungary) to the West European UCPT system in September 1995. This will benefit Poland in 3 ways: increasing electricity exports, energy security, and opportunities for Polish power enterprises to enter the European electricity market. Polish Energy Law and energy policy guidelines through the year 2010, developed with USAID support, were submitted to Parliament in January 1996 and adoption is expected before the end of the year.

USAID assisted in the establishment of a network of professional trade associations for real estate brokers and appraisers including a recently formed National Federation of Real Estate Brokers. These associations will set standards for quality of customer services and this will strengthen public confidence in the real estate market. With USAID assistance, a number of non-governmental Agencies for the Support of Local Housing Initiatives have been established on a pilot basis in 10 cities in Poland to design, obtain finance, and build small-scale private cooperative housing. These agencies are now financially self-sufficient, and directly assisted with the development of 1% of Poland's housing supply in 1995. USAID-funded advisors helped the nonprofit Housing Finance Project Office to advise private developers on the preparation of feasibility studies and financing applications for 5,000 units of multi-family housing, benefiting 20,000 people.

The USAID-funded equity fund, Caresbac, has demonstrated the profitability of investment in small and medium-sized enterprises. Its three regional offices had made approximately 4 investments (\$50,000 to \$400,000 each) per year in priority sub-sectors such as food production, agribusiness, light industry for export, and businesses supporting the housing industry and/or environmental clean-up. Over the past three years, sales of assisted firms have increased on average over 100% and employment has doubled.

In addition, the USAID-financed Polish-American Enterprise Fund (PAEF) completed 38 large direct equity and credit investments totalling \$106 million (including 23 PAEF co-investments totalling \$64 million). The PAEF's Enterprise Credit Corporation (small lending windows) approved 5,084 loans totalling \$117 million. The PAEF's Fundusz Mikro (micro-lending to SMEs) approved 226 loans totalling \$948,000. The special PAEF Women's Rural Enterprise Development revolving loan fund (which USAID/Poland also directly assists) approved 124 loans totalling \$391,502. Altogether, PAEF has created a portfolio of 5,472 loans and equity investments totalling \$224 million.

#### **Future Strategy for Strategic Objective Achievement**

##### **Intermediate Result #1: Policies, Laws and Regulations are Conducive to Broad-Based Competition and Private Sector Growth and Efficiently Administered.**

We are consolidating and encouraging greater synergy among implementers, to ensure sustainability of legal reform processes underway and the institutions entrusted with the future completion of reform. Budget limitations and upcoming graduation from U.S. assistance in the year 2000 have prompted a reduction in the number of implementers. USAID does not expect this to impact negatively on either its assistance to the reform process or the achievement of the S.O. and I.R.'s.

In FY 96, USAID initiated a training-of-trainers activity for indigenous Polish institutions such as the judges' association (Justicia), the Polish Banking Association, and the Polish Lawyers Association. USAID will also train indigenous organizations and consulting firms to provide legal information and advice to entrepreneurs, especially SMEs, through IDLI. If the collateral law is enacted, intensive training in its application will be given to entrepreneurs, bankers, lawyers and judges.

Technical assistance will continue to be provided to the Foundation in Support of SMEs and to the Ministry of Industry and Trade for their legislative agendas (as elaborated in the GOP SME Policy), to ensure that the Foundation develops a capacity for

data collection, analysis and dissemination of information and policy positions on SME legal issues and relevant legislative proposals. Through the GEMINI activity and the U.S. Treasury's tax advisor, USAID will also assist with reform of: incoherent regulations governing economic activities (the new Industrial Law), the tax system (not conducive to SME activity), and poor credit conditions. This will include reviewing and proposing amendments to civil and commercial laws and specific acts such as the Public Procurement Act, to improve their impact on the establishment and functioning of SMEs.

Assistance to the creation of a legal framework for the establishment and operation of local credit guarantee funds for SMEs will continue. USAID will especially emphasize the development of regional models for SME development and partnerships with municipalities. The guarantee fund for SMEs, which the Konin voivodship is starting, will be the focus for a number of other related pilot legal and regulatory initiatives.

Plans are underway to assist with the preparation of a new bankruptcy law that would replace the 1934 law, and be more appropriate to a modern economic system. The need for a new mortgage banking law also has been widely recognized, in order to facilitate access by banks to long-term capital for mortgage finance. Discussions are already underway regarding possible alternative formulations of this law. Support will be offered to the Ministry of Finance for this task, in order to expedite the process, to maintain consistency with parallel laws and regulations, and to ensure that the new law is conducive to the smooth development of mortgage banking practices in Poland.

## **Intermediate Result 2: Improved Profitability of SME Enterprises**

While other donors are providing considerable assistance to SMEs, few are directly helping them to improve their profitability. More importantly, none are addressing the problem of institution-building for Polish consulting firms that would be capable of providing the type of management assistance that would improve the profitability of the over 2 million SMEs.

To develop this kind of Polish institutional capability, USAID is launching a major new effort, the Business Support Activity, to strengthen indigenous business services organizations in the SME sector, and give them on-the-job experience advising and training selected SMEs, with emphasis on partner cities. SMEs require high quality but affordable consultants, to help resolve their business problems. At present many of these external resources are provided and financed in non-sustainable ways, mainly by foreign donors. Indigenous business support organizations (BSOs), do not yet have either the necessary organizational skills or personnel with the required years of business experience in a market economy. This new USAID activity will transfer expertise

to Polish consultants while helping 350 selected Polish SMEs improve their profitability and also provide case studies for BSO training. A network of 30 self-sustaining Polish business support institutions will be established in 3 regions, including a number of partner cities.

Through continued support for the SME Foundation and other SME business and research associations, USAID anticipates that data will be systematically gathered on the performance of the small business sector as input to SME policy development. A nationwide, computerized data bank will be available to small businessmen on the kinds of consultants and training available to help them improve their profitability.

In addition to assistance in expanding indigenous consulting services to SMEs, USAID has decided to target two industries critical to Polish SMEs -- energy and housing. Energy costs represent a significant portion of the production costs of SMEs. Improved management that is more responsive to market demands, and independent regulation in energy industries will move energy prices towards more efficient market-determined levels, increasing long term SME competitiveness, efficiency and profitability.

The Polish Energy Law and energy policy guidelines drafted with USAID assistance are expected to be enacted by the end of 1996; this will result in the establishment of the Energy Regulatory Authority (ERA). USAID-funded consultants are also helping with electricity pricing policy in Poland. USAID's technical assistance will also continue to facilitate the establishment of energy service companies capable of offering energy efficiency services.

USAID has also targeted the construction industry for specialized assistance because of its significant role in economic growth and because it provides relatively easy private sector entry opportunities, as witnessed by the 250,000 registered private construction firms. Due to the complexities of current real estate laws and the fledgling housing finance system, SMEs in the housing sector have unique training needs. USAID will finalize its program of support and training for housing finance by 12/96. After that time, local experts will be capable of continuing to give advice and assistance to private developers without foreign technical assistance. Management training specifically geared to the needs of small-scale private housing developers will still be needed. USAID plans to look for an existing training institution in Warsaw that could expand its curriculum to meet this need by 1999. At the Warsaw School of Banking, training in housing development and finance is already supported by USAID. The Warsaw Institute of Banking is also a potential new home for training for housing developers.

USAID also proposes to respond to widespread requests for expansion of the existing network of Agencies for the Support of Local Housing Initiatives, and to offer a wider range of support for small-scale housing developers through a new Center for Housing Initiatives (CHI) which will provide back-up assistance to about 25 new local agencies. CHI, and the local agencies it serves will be self-sufficient by 9/98, when final support from USAID will end.

USAID is assisting a network of 21 local organizations serving the agribusiness community to become self-sustaining by September 1996. This network will distribute information on services and assistance for agribusinesses, and it will identify needs of clients. It will also provide information to American agribusinesses seeking contacts and opportunities in Poland. With USAID-funded assistance, 30 agribusinesses will better analyze and use market information by September 1997. Mechanisms that provide and distribute commodity market data will be in place. Adequate commodity market information, including systems to clearly and rapidly disseminate this information, will facilitate expansion of Poland's domestic and international market share and therefore, the profitability of Polish agribusinesses.

**2. Strategic Objective 1.4: A Competitive, Market-Oriented Private Financial Sector**

**Overall Progress towards this objective:** Significant progress has been made toward this objective so that it should be achieved.

**Overall Progress to Date by Intermediate Result:**

**Intermediate Result A: Increased Confidence in the Financial Sector**

Establishment of a well-functioning supervisory and regulatory structure over financial markets, including self-regulation, improves overall confidence in the financial sector. Decreasing risk by improving access to reliable financial information, by assuring surety of liens, and by insurance schemes for depositors and financial intermediaries also help to improve confidence in the financial sector. In 1989, none of these elements were in place in Poland, when the National Bank was split into a central bank and nine commercial banks. Poland's financial markets had to be developed from scratch. Poland's financial sector is not yet fully articulated, and the complete gamut of supervisory and regulatory institutions that one would expect in a fully developed market economy do not yet exist in Poland. Nonetheless, essential supervisory and regulatory bodies are now functioning for banks (the Polish Central Bank inspection department), and for the securities industry (the Polish Securities Exchange Commission, the Warsaw Stock Exchange, and the Board of Brokers and Investment Advisors).

The bank supervision unit is enforcing bad loan classification and prudential rules, and is converting a staff of former bookkeepers into bank examiners. As a result of these measures, plus the bad loan conciliation program, non-performing and doubtful loans dropped from 35% of total credits in 1993 to less than 25% in 1995. The bank supervision function still is not fully operational; the Banking Inspectorate carried out a full-scale on-site examination of a major commercial bank, for the first time, in 1996.

The Polish Securities Commission published rules governing information disclosure and reporting requirements, and has staffed an enforcement department. Also, the Commission licensed some 50 brokerage houses and established a self-regulatory organization to monitor brokers and investment advisors.

Depositor confidence has been increased by the enactment in 1995 of a bank deposit insurance system which will cover losses up to

3,000 ECU per account in Poland's commercial banks. The large specialized state banks (Bank for Food Economy; PeKao Poland's large savings bank; and PKO SA) have the depositors' full amounts insured by the State, subjecting these banks to the problem of moral hazard (i.e. without their own assets at risk, banks may make poor investment decisions). Securities investors are protected against default in the return of surrendered securities or payment in the event of brokerage house failure by a guarantee fund, at the National Securities Depository, that covers such losses.

Though a modern collateral law is under consideration in Parliament, until that is enacted, banks are reluctant to lend against secured assets, for there is no collateral registry and undeclared tax liens have first claim over assets. In addition, paucity of information on companies' credit histories and the general standing of businesses makes it more risky for banks to lend to businesses. Solid information on investment risks is not available, although brokerage houses are authorized to give investment advice, so long as a licensed investment advisor is on their staff. Investors and fund managers do not have access to independent ratings on debt issues or equities.

#### **Intermediate Result B: Improved Efficiency of Financial Markets**

Efficiency in financial markets is achieved by increasing competition among financial market institutions, by improving the capabilities of these institutions, and by developing effective systems to support them, such as data communications and clearance, payments and settlement services. Over the past few years, with USAID assistance, significant progress has been made in all of these areas.

A competitive banking system is the core of every efficient financial market. Bank competition is achieved by privatizing state-owned banks and introducing new private ones. Poland now has close to 80 private commercial banks, including about 20 with foreign ownership. Four of the nine state-owned banks spun off from the NBP have been privatized (with two more scheduled for privatization within the next year) as has one of the five state-owned specialized banks. Over 300 of the 1600 coop banks have affirmed their desire to stay out of the state-owned structure and operate as independent, democratic, member-controlled institutions. Similarly, about 150 credit unions have been voluntarily formed by their members.

In the capital markets system, 51 brokerage houses now exist, including 32 non-bank-owned ones, and a National Depository for Securities that meets international standards is fully operational. The Warsaw Stock Exchange has been operating for five years and has close to 60 listings on its main trading floor and over 15 on its secondary floor. An Over-the-Counter (OTC)

market is in the process of being formed. The OTC will list many of the 512 firms in the Mass Privatization Program (which have been allocated to fifteen National Investment Funds, which will also be listed); will allow other private companies to raise equity, and will permit both corporations and municipalities to issue debt instruments.

The capabilities of Polish financial market institutions are continually being strengthened. With USAID assistance, major bank training institutions have been established in three geographically dispersed areas, as well as numerous other smaller regional or specialty financial training institutes. Intense assistance has been given to the financial markets, in fund management, investment banking, bad loan work-out, automation, and management information systems.

Systems that support the functioning of the financial markets have been established with USAID support. Clearing and settlement of stock market trades occurs within three days. Clearing and settlement of interbank transfers and payment orders is usually accomplished within four days; just two years ago, this took several weeks! Communications among banks have been significantly improved by the establishment of Telbank's reliable telecommunication links between banks, using dedicated lines set aside by the phone company, an initiative undertaken by the Polish Bank Association and the 17 major commercial banks. Communications among brokers are being upgraded.

**Intermediate Result C: Increased Availability of Financial Services and Products**

Poland entered its transition to a market economy with a banking and financial system which lacked most of the basic financial services and products that characterize an efficient system. Financial institutions are now starting to design, issue and market new instruments, to extend the outreach of their services to new geographical areas and new customer groups, and to benefit from a more rapid infusion of capital. This, in turn, will stimulate savings and investment, increase the efficiency of resource allocation, and allow for greater consumer choice and satisfaction. The pace of reform is uneven, influenced by the level of commitment of Polish financial institutions, and limitations in their capacity to assess the need for new instruments, then design these instruments, train staff in their use, and market them to customers and client institutions. As a result, some financial instruments and services have developed much faster and become more widespread than others.

For example, until 1994, all loans for construction and housing purchase were subsidized and state-controlled; there now exists a market-based construction and mortgage lending system. A mortgage instrument appropriate for high-inflation economies has

been developed and is in use by banks participating in the Mortgage Fund, demonstrating that mortgage lending is marketable and profitable. Eleven commercial banks are now issuing construction and mortgage loans; mortgages valued at over \$46 million were issued by the three major banking groups in 1995. This represents an investment in the housing sector of about \$115 million.

When Poland began its transition, municipalities also had no experience in utilizing credit for development. With USAID assistance, significant progress has been made in '95-'96 in creating a municipal credit system, especially for the financing of infrastructure. In 1996, the first substantial municipal bond (\$12 million) was issued by the City of Gdynia to purchase buses. The success of this privately placed issue set a precedent. Five other city councils have also approved resolutions to proceed with issuance of substantial municipal bonds. A Municipal Development Agency has been established and tasked, among other functions, with assisting municipalities to obtain access to capital financing. Several commercial banks are in the process of designing their own program of loans for municipal infrastructure. This momentum needs to be sustained to develop a thriving municipal bond market in Poland, and a complementary program of bank finance for smaller municipalities.

Approximately to twenty commodity exchanges exist, providing markets for the trading of over 50 agricultural and industrial products. The lack of a warehouse receipt system has prevented farmers from securing finance against harvested and stored produce. Producers and consumers cannot hedge against future price changes since there are no forward or future markets. Twenty operators of grain elevators have now applied to form a pilot network of Licensed Warehouses, which will issue warehouse receipts which can either be used by farmers to collateralize loans, or be traded on the commodity exchange.

While open-ended investment funds are authorized in Poland, no such authorization exists for closed-end funds. Though some of the investment funds encourage periodic savings, income channeled to such savings is not exempt from taxation. A legal and fiscal enabling environment for private pension funds is also lacking.

### **USAID's Significant Contributions to Progress under this Strategic Objective**

#### **Intermediate Result A: Increased Confidence in the Financial Sector**

For the central bank's inspectorate, a twenty-two chapter bank inspection manual has been developed over the past three years. One-quarter of the central bank's 300 examiners have received thorough training in on-site examination procedures. In 1996,

USAID advisors helped the central bank conduct its first examination of a major commercial bank. A procedures manual on how to assess problem banks and plan for their disposal of problem assets has also been developed. All these activities were USAID-financed.

For the Polish Securities Commission, USAID-funded advisor provided expert review of draft securities regulations to insure that they met "international best practice standards." Brokerage houses have joined together to form an entity to own and operate an Over-the-Counter market and have approved its trading rules. The OTC entity is a self-regulatory organization that adopts and enforces its own rules. The new deposit insurance scheme, enacted in 1994, was based on parameters recommended by USAID-funded advisors. For the National Securities Depository, USAID helped establish a guarantee fund that insures securities buyers and sellers against brokerage house failure during clearance and settlements.

Agreement has been reached with the Polish Bankers' Association to create Poland's (and Central and Eastern Europe's) first credit rating agency. A business plan for the agency has been prepared with USAID assistance together with draft articles of incorporation. A broad array of Polish and international financial institutions will be invited to become investors, to guard against accusations that ratings might be influenced by any one shareholder.

Under Strategic Objective 1.3, a number of legal reform activities support Strategic Objective 1.4. For example, a modern collateral law has been developed through legal assistance furnished by USAID, and it is finally now under consideration by Poland's Parliament. If enacted, the reform will eliminate the priority accorded to Ministry of Finance claims, if tax claims are not formally registered before bankruptcy. Under a parallel proposed law, a registry for liens by banks and others would be established.

#### **Intermediate Result B: Improved Efficiency of Financial Markets**

USAID has played a major role in improving competition in Poland's financial markets. In the banking system, USAID's role has been critical. In many of these areas, USAID is either the only donor or the lead donor. For example, the Bank Privatization Fund (to which the U.S. is a major contributor) has played a pivotal role in continuing the bank privatization process. The PAEF has helped establish three private banks and some of the state-owned banks have received pre-privatization assistance from USAID. USAID has been the lead donor supporting the 300 independent coop banks, as well as the credit union movement.

With USAID technical assistance, forty-three brokerage houses have joined to form a corporation to own and operate an OTC Market. Trading rules for the market have been developed and approved, and a computerized trading system has been created. USAID played a substantial role in helping to separate the National Securities Depository from the Warsaw Stock Exchange and to bring the Depository's operations up to international standards for clearance and settlement. In addition, USAID has been the lead donor supporting the development of effective financial market support systems including developing the T+3 clearing and settling of stock trades through the National Depository, and improving interbank funds transfers and payments in the banking system. USAID also contributed significantly to the development of the Warsaw Stock Exchange.

USAID has played a major role in improving the capabilities of financial market institutions. In both banking and capital markets, virtually every USAID activity has incorporated a significant training component especially: mortgage and municipal financing, OTC, coop banks and credit unions. Moreover, the housing, coop bank and credit union activities helped establish or develop indigenous training institutions. Other USAID activities developed specific capabilities in certain banks, such as investment banking, building capacity at Polish banks and training bankers, while assisting Polish companies with their investment banking needs. USAID was the lead donor that helped establish and develop the Warsaw Institute of Banking, and will continue to play a critical role in its institutional development.

**Intermediate Result C: Increased Availability of Financial Services and Products**

USAID has been instrumental in establishing Poland's market-based construction and mortgage lending system, by providing the guaranty for a capital loan to the Mortgage Fund, which on-lends to primary lenders. Participating commercial banks have received technical assistance and formal and on-the-job training from USAID-funded advisors. USAID advisors drafted the first Polish procedural lending guides for market-based mortgages and construction lending; contributed to improved marketing of the products of the Mortgage Fund and participating banks; and helped develop a new, deferred payment mortgage product.

The City of Gdynia's recent municipal bond was the first successful private placement. For the follow-on bond issue planned by the City of Krakow, USAID-financed advisors supported selection of an underwriter; prepared an information memorandum specifying the financing package; and prepared disclosure guidelines for the Polish Securities Commission.

A major Polish initiative in support of the rationalization and decentralization of municipal finance, the Center for Municipal Budget Training and Advice, was established in Krakow under the sponsorship of the USAID-supported Municipal Development Agency. USAID-funded advisors have also developed a standardized municipal loan application and evaluation package and, following USAID advice, three commercial banks have agreed to accept and review loan applications for financing municipal infrastructure projects with their own capital.

Under USAID funding, VOCA has been developing a pilot licensed grain warehouse system which will furnish farmers with uniform warehouse receipts for their stored grain that can serve as collateral for loans. The receipts will be tradeable instruments, making grain trading possible without physical inspection of the commodity before purchase. This is the first step towards developing futures contracts for commodities.

Price Waterhouse, with USAID funding, delivered training on private pension plans to the Ministry of Privatization, Ministry of Labor, Council of Ministers, Institute of Labor and Social Studies, local CASE Foundation, and private entities interested in pension fund development. As a result, these institutions have been exposed to the full range of private pension fund design issues and alternative approaches to their creation, management and supervision.

## **Future Strategy for Strategic Objective Achievement**

### **Intermediate Result A: Increased Confidence in the Financial Sector**

Support to improving bank supervision needs to continue so that a bank performance reporting system can be put in place that will allow the Central Bank to analyze banks, compare them with their peers, and pinpoint emerging problems. Further, the inspectorate needs help to organize a schedule of annual examinations of all major banks, focussed on identifying emerging problems within each of those banks. By the end of 1999, the central bank should be conducting regular on-site examinations of all major commercial banks.

Regulatory and supervisory functions and capabilities need to be created and strengthened for the new financial market instruments that are being developed, such as private pension funds, licensed warehouse receipts, commodity futures contracts, and municipal bonds. For the Over-the-Counter market, training and technical assistance are needed to insure that the market and brokerage houses effectively carry out their surveillance functions, ensuring compliance with trading rules and rules of fair practice.

The first credit rating agency in Poland is expected to be formed in summer 1996. Intensive follow-on training will be needed to help the new organization to produce and market its first credit ratings by June 1997. The enabling environment for better flows of information on credit history and the general standing of businesses is poor. USAID will help to create a more supportive environment in which credit bureaus and similar agencies will be able to function and supply information useful to banks and enterprises in making sound credit decisions.

### **Intermediate Result B: Improved Efficiency of Financial Markets**

Continued support for all existing USAID activities is essential, since USAID is often the only or lead donor. First, pressure on the GOP must be maintained to complete the bank privatization process. Specifically, the GOP's bank consolidation plan must be rejected as insufficient for true privatization (since 51% of the banks' stocks will be put into several state pension funds); this will decrease bank competition. Decreased competition will result from removing several large banks from the banking system (re-establishing a semi-monopoly in several regions) and from providing fundamental disincentives to the development of many customer- and community-oriented banking services that banks are just now starting to offer.

Secondly, support for the coop bank sector is required for a few more years to assist the 300 banks that have democratically voted to stay out of State control. These banks have made tremendous progress, and are almost ready to be sustainable on their own. Continued USAID support will not only assure their independence, but also set an example for the remaining 1300 coop banks that could cut their dependence on the government and create a lobby against the government's very costly, ill-conceived plan to re-nationalize these banks.

Third, within the existing grant to World Council of Credit Unions, a final tranche of support for the credit unions is still required. Up to now, USAID funding has helped to establish a national credit union movement, register individual credit unions, and support passage of a Credit Union Act. A major expansion of credit unions is expected in the near future, and modest continuation of USAID support may be warranted to protect their members.

Fourth, the OTC project is in mid-stream. A truly automated trading system capable of real time placement of bids and offers must be developed, and brokers must be trained in market-making. Once these capabilities are in place, it should be possible to have at least 100 listings on the OTC market by the end of 1998. Continued improvements to the interbank transfers and payment systems will be essential if Poland's securities industry is to

develop fully and if banks are to compete effectively against foreign banks which will be allowed freer market entry in 1998.

If Poland's rapidly growing private businesses are to secure the working and investment capital they need for continued modernization and expansion, banks must be able to offer a full range of corporate financing services, including help in raising capital in the OTC market and on the Warsaw Stock Exchange. To this end, bank staff skills in financial restructuring and investment banking need to be strengthened. By the end of 1998, fifteen Polish banks should be able to offer standard corporate finance and investment banking services to private and privatizing enterprises.

Support for the Warsaw Institute of Banking, although less critical, is very important to assure its long term sustainability. Most of the bank training institutes operating in Poland are weak. A strong, forward-looking bank training institute that is responsive to the needs of the banking system is essential to leave in place by the year 2000.

There are a number of other types of assistance which USAID is not currently providing and for which no future funding will be available, especially corporate governance (in banks, and corporations where bank can influence the Board of Directors), internal auditing in banks and corporations they have invested in, and the chart of accounts (the country's accounting system). The pre-1989 accounting system in Poland, and the French-sponsored rewrite since then, do not reveal the financial conditions in banks and corporations. The absence of these types of assistance has proved to be a major liability in the development of financial markets, though some progress has been noted in these critical areas. Other major donors will be asked to take a pro-active role to promote these aspects of financial sector system development along Western lines.

A waiver for the hiring of a U.S. PSC Senior Financial Sector Development Advisor is requested, to manage critical aspects of this Strategic Objective in FY 96-97 (see Annex 4 for Justification for Position).

**Intermediate Result C: Increased Availability of Financial Services and Products**

The previous two years have been a period of foundation-building, and results are now beginning to be seen in all activities contributing to targets under this IR. It is clear, however, that financial institutions lack the specific knowledge necessary for the development of a number of financial instruments, and the fine-tuning of some of the instruments already developed.

For example, continued assistance with specific aspects of

mortgage banking will be needed, especially assistance to new entrants into Polish mortgage banking. Poland lacks any systematic training in mortgage banking, so a curriculum for real estate lending training needs to be introduced into one or more banking schools. As the mortgage system matures, it will be necessary for banks to issue mortgage bonds to mobilize long-term capital for mortgage lending. The regulatory framework for mortgage bond issuance in Poland will need to be carefully developed, in order to pave the way for development of a secondary mortgage market.

Training of warehousemen, inspection service personnel, bankers, and commodity traders will need to be intensified if the pilot licensed warehouse system is to come on line as envisaged. Extension of the pilot project to a more national system, encompassing a wide variety of commodities, would need further assistance.

Once a legal and fiscal enabling environment for private pension funds is established, training for potential private pension fund managers and regulators would ensure proper operation of the system. A public education campaign would attract adherents to invest in these new private retirement plans. Bank services for SMEs remain underdeveloped; USAID-funded assistance is needed for bank training and the establishment of SME financing mechanisms, especially: leasing, inventory and receivables finance.

**3. Strategic Objective 2.3: Local Government is Effective, Responsive and Accountable**

**Overall Progress towards this objective:** Work on most aspects of this objective is only just beginning. Results so far lead us to believe that the objective can be achieved with intensive USAID assistance in FY 1996-2000.

**Overall Progress to Date by Intermediate Result:**

**Intermediate Result 1: Increased influence of local government on national and regional policy.**

Local governments (gminas) in Poland have had some success in influencing national policy through the efforts of national associations which represent gminas' interests. In addition to the National Association of Local Assemblies, a creation of the communist era, there are now four national, voluntary organizations representing gminas -- the Association of Polish Cities, Union of Polish Metropolitan Cities, Union of Polish Small Towns, and the Association of Rural Gminas. While membership in these four organizations is continuing to increase, they vary greatly in their capabilities and have only recently taken steps to cooperate with one another. A Federation of Unions and Associations of Polish Gminas was formally registered in December 1995, as a way to improve coordination between national and regional associations.

One indicator of gminas' influence, has been their relative success in the battle with central government for resources. In 1994, the local share of total public expenditures in Poland was 19%, representing a fair degree of fiscal decentralization (the comparable figure for the United States is 23%). Gminas are responsible for delivering an increasing number of services, and the 46 largest cities, as of January 1996, have taken over secondary education (in addition to primary); cultural institutions; day-care centers; health care centers; group homes and public welfare institutions; road operation, maintenance and construction; land surveying and cartography; sanitary inspection and fire departments. For other services, local governments continue to express concern about whether adequate funds have been transferred from the central level to cover local delivery of all of these services. As an example, in the housing sector, local governments have had an ongoing dialogue with the central government, successfully winning amendments to laws and regulations that directly affect them and their ability to finance housing development and rehabilitation. The housing allowance/rent reform act has been amended several times to more appropriately allocate housing subsidies based on the real conditions of gmina housing stock and population characteristics,

and the not-for-profit housing development regulations are being revised with input from gminas.

Debate also continues on whether to introduce an additional "powiat" level of self-government in Poland. While the Constitutional Committee has agreed to establish three levels - gmina (existing; elected); powiat (county - not currently existing, proposed to be elected); and voivodship (region - appointed by central government under current practice, proposed to be elected); the devil is in the details, and it remains to be seen how successful gminas will be in making their voices heard in this highly-politicized debate.

**Intermediate Result 2: Increased participation in local government decision making.**

Polish non-governmental organizations (NGOs) have grown rapidly over the past six years with 47,000 NGOs registered and an estimated 12,000 active at the end of 1994.<sup>1</sup> Most were established after 1989, with more organizations emerging each year until 1992, when the upward trend slowed down.<sup>2</sup> There are 44 NGOs per 100,000 inhabitants in Poland (2,272 persons per organization)<sup>3</sup> which is comparable to Italy.

Polish NGOs engage in a variety of activities, most often in the following theme areas: education, social assistance (especially assistance to families and children), healthcare, environmental protection, arts and culture, regional and local development. At least 10% of NGOs (approximately 1200 organizations) attempt to influence the formulation or implementation of social and economic policies at the national or local level and can be characterized as public policy-oriented NGOs. USAID believes that NGOs engaged in public policy debates and advocacy at the local level are well-suited to serve as a collective voice of citizens in interactions with the local government. They can encourage local governments to create mechanisms for citizens' input. Only strong and viable NGOs will be able to perform such

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<sup>1</sup> Comment: More recent data is not available; the EU PHARE-funded KLON/Jawor NGO Data Base is currently being updated. Special purpose organizations such as sports clubs and voluntary fire brigades were not included in the estimate of 12,000 active NGOs.

<sup>2</sup> The existing data for foundations show that more than 50% of them were registered in 1991-1992, and only 10% of them in 1995.

<sup>3</sup> Robert Putnam, "Making Democracy Work", Polish edition by Znak, Krakow, 1995

a role. Therefore, building the sustainability of NGOs, both their organizational capabilities and financial stability, is essential.

No data exist to assess the current organizational and financial sustainability of these organizations, but a general survey of NGOs indicated that many are extremely financially vulnerable. At least 20% operate without practically any financial resources, while an additional 33% operate with a very limited budget (below \$5,000 per year). USAID funding will be targeted towards the public policy-oriented NGOs with the greatest potential for sustainability and influence on local government.

Cooperation among NGOs and with other important players at the local or regional level has been limited, and their level of specialization is low, resulting in frequent shifts from one theme of activity to another. Concern for the effectiveness of NGOs' actions has rarely been an issue, and performance standards have not been established.

Recently, some important qualitative changes have occurred. NGOs are moving away from basic forms of social assistance such as provision of free lunches or clothing, and have begun to focus on developing new, more effective approaches to helping people solve their problems through educational, advocacy and advisory activities. This new approach requires greater professional skills in NGOs to ensure efficiency and sustainability, and creates a greater demand for a sustainable network of organizations which support NGOs. EU PHARE assisted in the establishment of the national KLON/JAWOR NGO databank, which updates and publishes a listing of all NGOs in Poland. Several regional organizations provide training and technical assistance to NGOs. However, performance standards for these services are at the early stage of development and USAID assistance is promoting higher quality.

As gminas assume responsibility for an increasing number of services, they must look for the most efficient approaches. Twenty to thirty percent of NGOs engage in activities of interest to local government such as education, health care, housing and social assistance, and can increasingly serve as important partners in service delivery. Three gminas (Warsaw, Gdynia and Gdańsk) have recognized the need for NGO-gmina partnership and have developed and implemented formal plans for cooperation.

A new Housing Act enables the creation of gmina-supported NGOs for rental housing development, rehabilitation and management. A model of NGO-gmina partnership for housing development has been replicated in a dozen cities. While no national data is available yet on cooperation between public policy-oriented NGOs and local government, a general survey of NGOs indicated that 22%

received co-financing from local governments and that on average, local government contributed 7% to NGOs' budgets. So far, more contracting out of services to NGOs has not been possible, since local governments lack experience and have no model procedures or contracts to follow.

Participation by NGOs, businesses and citizens in local government decision-making is increasing and becoming more widespread, but this is still a relatively new concept in Poland. Several cities have created extensive participatory processes, including use of participatory models for setting priorities in three cities, community redevelopment planning, and community organizing, often tapping into assistance from a variety of donors. These models are now beginning to be replicated elsewhere. The private sector has been the least involved in formal participatory processes, with the exception of a few economic development strategic planning exercises, partly due to the lack of strong business associations at the local level. As USAID activities are encouraging the transformation of budget and strategic planning processes, local governments are communicating more directly with the public and stimulating greater participation.

**Intermediate Result 3: Increased capacity to efficiently deliver services and manage local resources.**

Substantial improvements have been made in sector-specific municipal capacity to deliver services, both in the overall environment for municipal operations and in development of models for best practice. USAID introduced budgeting as a management tool through demonstration projects and a recently established dissemination mechanism. USAID-supported local partners have demonstrated improved infrastructure project preparation, produced a replicable methodology, and incorporated this into training curricula. USAID-funded advisors have prepared technical manuals for waste-water management and application of the housing allowance law. Many municipalities are undertaking strategic planning, and beginning to link these plans with the budget process and resource allocation. The new Municipal Development Agency (MDA), created in 1995 with technical assistance and training from USAID partners, provides support to municipalities in infrastructure project preparation, and the development of financial management tools and methodologies. MDA is beginning to undertake the task of helping cities to link planning and budgeting to investment finance.

To increase the financial resource base to adequately fund services, substantial progress has been made in expanding municipal access to credit. A newly passed bond law enables the issuance of municipal bonds. A \$12 million bond was recently issued by Gdynia, with more to be issued soon by other cities

with USAID-funded assistance (e.g. Krakow), and procedures for public trading of bonds are being developed. At least three commercial banks have formally indicated their strong interest in lending to municipalities; a methodology has been developed for credit application preparation and for credit review by banks. A number of municipalities have revised their pricing of public services to more fully cover costs. Such change has been slow to be accepted in rental housing, but water, district heating, and transit prices are closer to cost recovery. A number of tools for local economic development have been developed and demonstrated, and many municipalities are aggressively pursuing foreign investment. They are beginning to favor support for SMEs.

On the other hand, municipalities are in a more difficult financial situation than they were a few years ago. Substantial responsibility has been delegated from central to local government, especially (but not only) to the larger municipalities. The financial resources needed to run such services, however, have not been adequately provided, either in transfers (through amendments to the revenue sharing formulas) or in changes in local revenue-raising authority. New laws have been enacted that are meant to target housing subsidies by level of income to the truly needy; municipalities have yet, however, to fully exploit their ability to raise rents and achieve cost recovery.

**Intermediate Result 4: Improved indigenous mechanisms for support to local government.**

Progress under this IR is the product of sustainable institutions created under the other IR's of this Strategic Objective. With the re-creation of local government in Poland in 1990, it became readily apparent that to function effectively, local governments needed well-prepared, well-trained employees. By the end of 1993, more than 76% of gminas included funds in their budget for staff training according to the EU PHARE database of short courses for local governments. A plethora of training institutions have sprung up to meet this demand including the highly successful USAID-assisted network of 17 Foundation in Support of Local Democracy (FSLD) training centers. In 1993, 51 schools in 40 voivodships began offering two-year post-secondary school programs for gmina administrative technicians.

However, there is no systematic approach to human resources management such as clearly-defined career paths. Dissemination of information on available training and links to gminas' training needs are inadequate. While the number of institutions offering workshops and short courses creates a good competitive environment, there is no objective measure of quality for the training delivered. Standards for professional accreditation are

lacking. No Polish institution provides long term degrees in Urban or Regional Planning or City Management. There are few Polish consultants qualified to assist municipalities with strategic planning, infrastructure finance, and mobilization of public-partner partnerships for service delivery and economic development.

**USAID's Significant Contributions to Progress under this Strategic Objective:**

**Intermediate Result 1: Increased influence of local government on national and regional policy.**

In April 1996, parliamentarians from the Committee on Local Government told USAID that the Association of Polish Cities is the strongest, most active of the five national organizations that represent cities, and that together with the Union of Polish Metropolitan Cities, it provides the most useful information to Parliament. USAID has provided technical assistance and training to this Association since 1991, resulting in doubled membership (now 190 gminas) and diversified revenues (including 40% from non-dues sources). The Association has had an impact on national legislation which increases decentralization, including amendments to the law on gmina finances, and the law granting new responsibilities for service delivery to the largest cities in Poland.

USAID funding provided policy support to the Union of Polish Metropolitan Cities, as well as the Association of Polish Cities, resulting in positive change on: a) the bond law, making municipal bonds more feasible; b) the rental housing/housing allowance law, sharing the cost of housing subsidies more equitably; and c) the creation of the Municipal Development Agency, an institution that supports municipal infrastructure project preparation.

**Intermediate Result 2: Increased participation in local government decision-making.**

USAID funding stimulated the interest of NGOs in public policy-oriented activities, a concept not yet well established in Poland. Eight hundred of the 1,200 public policy-oriented NGOs have been reached by an information campaign which explained the concept and presented major areas of public policy interest. To develop the organizational and financial sustainability of public policy NGOs, USAID selected a first group of 29 NGOs, and is giving them assistance with the preparation of plans for sustainable funding, once USAID's grant for cooperation with local government and improving NGO management capability ends. A

network of six Polish NGO-support organizations -- the Open Society Network -- has been established to help other NGOs to develop public policy-oriented initiatives, raise funds and develop partnerships with local government and other local partners. The network is developing standardized procedures for providing services to other NGOs. Network members in Warsaw, Gdańsk, Lublin, Poznań and Katowice are available to serve NGOs throughout Poland.

To promote public awareness of the role of NGOs and to publicize the best examples of citizen participation in solving local problems, a USAID-financed NGO invited 800 local newspapers to submit articles reporting on NGO "best practices", and prizes for quality reporting were awarded. A working group of NGO leaders and experts successfully lobbied the Government of Poland and stopped a proposed amendment to the law on foundations that would be unfavorable to NGOs. The group is expected to continue its campaign until an amendment to the law on foundations is prepared that responds to the needs of NGOs.

In order for NGOs to survive, there must be willingness on the part of individuals to take action and get involved. With USAID funding, citizens in six cities have been mobilized to help solve community problems on an ad hoc basis. The first three cities (Białystok, Kielce and Opole) selected public safety as a number one priority, and partnerships between citizens, local government, the police department and private business increased public awareness and cooperation. Innovative programs were launched, such as Neighborhood Watch, which have visibly reduced crime, particularly by juvenile offenders. As a result, Białystok now has a \$20,000 line item in its budget to support citizen initiatives.

With USAID support, a number of other cities are making strides in creating mechanisms for citizens' input. Kraków conducted a public opinion poll to determine local spending priorities and published the city budget to introduce greater transparency into its budget process. This process has been recommended in a budget manual and training curriculum for other gminas. Two cities identified environmental protection as a priority with intensive citizen involvement. The City of Lublin is now a showcase; it won a UN Habitat II "best practice" award for integrating community involvement into its planning and funding of infrastructure improvements. With USAID funding, the Foundation in Support of Local Democracy (FSLD) has developed training curricula, actively sought by gminas, on public communication and community negotiation for the siting of landfills. For the most part, these "best practices" were developed on case-by-case, as sector-specific model projects.

**Intermediate Result 3: Increased capacity to efficiently deliver services and manage local resources.**

Budgeting is the heart of municipal financial management. USAID's demonstration projects in Kraków and Lublin in program-based budgeting have become the basis for development of a manual and training curriculum. Polish local governments have to date used a budget format that does not distinguish program costs and outputs. The task-based budget enables such analysis and, therefore, more informed prioritization of expenditures. With USAID assistance, the Center for Municipal Budget Training and Research has been established as an arm of the Municipal Development Agency. The Center is testing the manual and training trainers and Polish consultants to broadly disseminate task-based budgeting and other good financial management practices to a large percentage of the 2,500 gminas nationwide. Similar work is underway in capital investment planning, with a methodology under development that will be useful to many municipalities.

The Public Procurement Law has been enacted, a monitoring office established, and training guides are in circulation. The majority of municipalities appear to be correctly implementing the law, resulting in more competitive and transparent local procurement.

Project preparation for infrastructure investments has greatly improved as a result of the implementation of a dozen or more demonstration projects and development of training materials. For instance, five waste water projects are in construction or already completed. Improved project preparation means that projects are more cost-effective, have adequate financial analysis to determine funding needs, and are packaged with sufficient project and gmina financial information to be underwritten by financial institutions. USAID has developed a "tool kit" to help gminas gain access to longer-term credit, including a standardized loan application package and a municipal financial analysis model. These are being tested in three municipalities and have been adopted by the Municipal Development Agency for the screening of infrastructure projects.

While assisting the Securities Commission to prepare Disclosure Guidelines suitable for municipal bond issues, USAID advisors have prepared a model Information Memorandum for one city, to meet requirements of the Securities Commission, and pave the way for access to the financial markets by other cities for bond issues. These tools are influencing the development of municipal finance policy and they provide models that will be disseminated widely to other municipalities through training institutions and the growing indigenous consulting sector.

In housing and health at the local level, USAID funding has also supported the development of "best practices" which can be replicated, and which influence policy-level decisions. USAID-funded advisors helped several municipalities to develop management systems and tools to analyze the costs of health service provision. Eight municipalities have been working in a partnership to develop models for better housing development, management and rehabilitation, including testing a new not-for-profit rental housing system. Jointly-funded housing NGOs are a new means for local governments to facilitate new cooperative housing development, which is being replicated. Work is underway to develop a methodology and database on service pricing and costs, so that municipalities will have standards against which to compare their own service costs.

**Intermediate Result 4: Improved indigenous mechanisms for support to local government.**

USAID played an instrumental role in the development of one of the premier institutions which supports local government in Poland. Since FY 92, USAID has invested over \$3 million in the Foundation in Support of Local Democracy (FSLD). In just five years, FSLD has grown into a sustainable national network of 17 regional training centers and five schools of local government, training close to 40,000 people per year. FSLD's income has increased seven-fold from 1.5 million zł in 1991 to 10.7 million zł in 1995, with 46% of this income self-generated. FSLD has a core faculty of over 30, and it offered over 1500 courses in 1995.

FSLD is no longer a USAID customer, but an important partner helping us to achieve IR 2, IR 3 and IR 4. The training FSLD delivers helps local governments to build the technical and managerial capacity necessary to more efficiently deliver services and manage local resources. USAID and other donors use the FSLD national network to disseminate lessons learned from donor-funded pilot activities.

**Future Strategy for Strategic Objective Achievement**

**Intermediate Result 1: Increased influence of local government on national and regional policy.**

USAID now has a more comprehensive strategy in place to achieve this Intermediate Result. Beginning in FY 96, USAID has expanded its efforts to work with the weaker municipal associations to build their capacity to lobby effectively. By the end of FY 98, USAID expects that at least two additional associations will show marked improvement in their capacity and in the quality of their

lobbying efforts.

To encourage cooperation, USAID partners will work with the five national organizations collectively through the National-Territorial Self-Government Joint Commission. The Commission is a unique institution created by the Council of Ministers as a forum for exchanging opinions and making agreements between the central government and nationwide local government organizations. USAID implementers will support the local government side of the Commission in building a system of analysis which will enable it to present well-researched, empirically-supported recommendations. This effort will create a framework for regular, systematic collection and analysis of data and practical experience, necessary if local governments are to become equal partners in the debate with the central authorities. Clarification of roles and responsibilities between levels of government, and a shift from the national to the local level of resources to carry them out, is paramount. USAID-funded advisors are helping the Commission to analyze and propose improvements in the system of inter-governmental financial transfers. By the end of FY 98, USAID expects that this work will (at a minimum) have materially improved efficiency and equity in two of the six major revenue transfer formulas.

To increase effectiveness, local governments and their associations must be able to commission analysis from capable research institutes and universities. As part of its strategy, USAID implementers are working directly to improve capacity at a number of local research institutions and to encourage their partnerships with gminas. Through this collaborative approach, USAID expects to help local governments achieve the following policy changes by the end of FY 97:

- o health sector regulations and policies that promote the use of contracting out to the private sector by hospitals and insurance companies;
- o establishment of disclosure guidelines for municipal bonds for public trading;
- o regulated rental housing rates closer to market value; and
- o competitive bank lending for gmina finance.

USAID is beginning to work with a group of 15 Nowy Sacz gminas in health service delivery, and this may function as a model "powiat".

**Intermediate Result 2: Increased participation in local government decision making.**

To increase participation in local government decision-making, USAID funding will continue to develop the capacity of NGOs and citizens to cooperate with and influence local government. USAID has reoriented its NGO-support activities to form an integral part of this strategic objective. The process of selecting NGOs for assistance has been streamlined to narrow the scope to only those NGOs which are likely to become sustainable and which establish or strengthen cooperation with, or have influence on, local government. USAID-funded contractors plan to work with 50-60 NGOs, with emphasis on those located in or serving partner cities, assisting them with implementation of public policy initiatives that have clearly defined objectives that will lead to concrete results. These organizations are expected to have two-year development plans in place, diverse funding sources, and be sustainable once USAID funding ends. They will also have certified accounting systems in place and staff trained in project management, fund raising and public advocacy. The first group of 29 is expected to reach this stage in May 1997, and the remainder, in December 1997.

The following results are expected at a minimum, based on proposals funded to date (but none so far in partner cities): local residents organized to influence municipal policies; a new, more democratic school management model involving parents, students, teachers and local officials in decision-making; an information center for national minorities established; and ten wetland areas and 500 white stork nests under joint local protection through the efforts of 2000 volunteers, local governments and electric companies. These initiatives will be implemented throughout Poland, in big cities and in small towns. A future group of public policy NGOs will be specifically selected to address issues more directly related to other USAID local government activities in partner cities (e.g. advocacy campaign to promote improved health management and financing procedures).

USAID partners will continue to work with the Open Society Network to help it become organizationally and financially sustainable by the end of 1997. NGOs face the challenge of effectively lobbying for an amendment to the law on foundations that will be more favorable to them. Working together with USAID-supported small business activities, NGOs are developing a lobbying campaign to prevent introduction of an amendment that would tax grants to foundations, limit foundations' ability to engage in economic activities, and impose excessive reporting requirements on them. This draft amendment has been temporarily tabled, but it may be reintroduced, therefore, USAID funding will

continue to assist with this NGO campaign.

NGOs are unevenly distributed geographically in Poland. Of all NGOs, 25% are active in Warsaw, and the majority of NGOs are active in large cities and towns. Financial resources are also unevenly distributed among them, with more than 50% of NGOs operating on minimal budgets, and a small group (2% of the strongest), accounting for over 60% of all NGO financial resources. In order to continue support for NGOs and their cooperation with local government, USAID will have to provide additional funding for NGO support organizations through FY 99.

**Intermediate Result 3: Increased capacity to efficiently deliver services and manage local resources.**

To achieve this intermediate result, several strategies will be pursued:

- o disseminating the tools which have been already developed;
- o developing or refining new tools in other theme areas, especially those needed for public-private economic development partnerships, and,
- o integrating and linking components of urban management to develop stronger overall municipal planning and management capacity.

While much progress has been made in infrastructure project preparation and finance, experience to date needs to be institutionalized and the "best practice" tools need to be refined and disseminated through training institutions and local consultants. Tools and systems that require further development include: capital investment planning, training for lending institutions in assessing municipal finance requests, and development of a larger pipeline of projects to test and institutionalize credit and bond markets. USAID-funded advisors will work with the World Bank on final design and implementation of a municipal line of credit. Also of critical importance (and as yet undeveloped) are mechanisms for credit access by smaller municipalities, be it bond pooling, or bank credit guarantees. The Municipal Development Agency is a good partner to both deepen and widen the "tool box," and to develop missing systems and methodologies.

The quality of municipal service also needs to be improved. This will be approached by helping municipalities assess the quality and cost of services, and by developing models for private participation in service delivery. This entails understanding

both how and when to encourage private involvement in service delivery, municipal enterprise restructuring, and regulation and monitoring systems. Particularly important services include water and waste water, solid waste, housing management, transit and health services. USAID can build on some models already developed under previous activities, both those undertaken independently by USAID implementers, and those assisted by other donors.

USAID strategy will continue to promote a more comprehensive, integrated, and participatory approach to urban management and service delivery. While many municipalities have some form of strategic plan, these plans are not well linked to budget and capital investment decisions. Land planning and economic development planning have not been linked to each other, nor have mechanisms for engagement of the private sector or citizens in general been well thought out. USAID will develop partnerships with approximately 30 cities to work together with them to develop comprehensive, integrated models. A package of technical assistance needs will be addressed providing the opportunity to promote more inter-sectoral integration across financial and management systems. By working intensively with these "partner cities," as well as with the municipal associations and other support institutions for local government, USAID's resources will be better used, and the "tool box" will be expanded and more aggressively marketed and disseminated to cities and towns nationwide.

**Intermediate Result 4: Improved indigenous mechanisms for support to local government.**

This IR will result from the cumulative capacity-building results achieved under the other three IR's. A partnership between DAI and the Krakow Academy of Economics, West-Pomeranian School of Local Government, will create the first long term university degree program for municipal managers. Two other universities will be selected for partnership with U.S. regional and urban planning faculties to develop the first Polish degree programs in these subjects. Harvard University in partnership with Jagiellonian School of Public Health is developing Krakow-based municipal health services consulting capacity. FSLD's ability to provide consulting services in public procurement and personnel management will be strengthened. Other institutional capacity-building efforts will be designed in collaboration with local institutions such as the Cooperation Fund (a spin-off from EU PHARE assistance).

#### 4. Special Initiatives 4.1

- **English Language Training Program** (Implementor: USIA)

Demand for English language training in Poland continues to grow, but people are willing to pay the cost of training. Efforts by USIA and Peace Corps since 1990 have contributed to a pool of trainers in country. Indigenous capacity to teach English language at the college level will be upgraded and the number of secondary schools offering English as a foreign language will increase.

- **Central and Eastern European Graduate Scholarship Program** ("Muskie") (Implementor: USIA)

This program was created to respond to a special interest of the U.S. Congress, and it is expected to continue through a final FY 1998 obligation. The Muskie Scholarship Program provides an opportunity for the best university graduates to obtain higher degrees in the United States, and for mid-career managers and professionals to increase their qualifications.

- **Free Trade Union Institute -- Support to Solidarity Trade Union** (Implementor: FTUI)

This activity has the special support of the U.S. Embassy, Warsaw, and will continue through October 1997. During this period, resources will support the transition to sustainability of the BKN (Bureaux of Consulting and Negotiations) of the Solidarity Labor Union in Poland, and also maintain a minimal office able to serve FTUI's regional interests. It is hoped that these Solidarity Bureaux will contribute to building political consensus for privatization.

FTUI with USAID grant funding helps Solidarity to supply legal and other services to Polish workers in many regions of Poland through the BKNs. The BKNs assist with complicated economic transformation problems, have helped thousands of Polish workers and, in many cases, developed creative ways of saving jobs and mitigating the social effects of transformation.

- **Warsaw Journalism Center** (Grantee: Warsaw Journalism Center)

The FY '96 obligation, the final contribution to this successful activity, will result in the financial, organizational and administrative sustainability of this important center for the training of professional, free and independent press in Poland.

● **US Department of Labor -- Labor Market Transition**  
(IAA with the U.S. DOL)

Participation of the U.S. DOL in Central Eastern Europe is specifically mandated in the Congressional legislation on Support for Eastern European Democracy (SEED).

The Solidarity Union is very concerned with growing unemployment, and it provides leadership in developing and implementing numerous methods to combat unemployment and improve labor market conditions in Poland. In doing so, Solidarity partners with the United States Department of Labor (U.S. DOL) and the AFL-CIO. As a result of this active partnership, a number of programs and activities are currently in operation in Poland, such as the Construction Crafts Skills Training Centers, established with DOL's assistance in 1992, and the White Collar Training Center in Lodz.

Also, as a result of efforts by Solidarity, U.S. DOL has developed and continues to deliver a comprehensive training program for Union leaders and members of company management in Labor-Management Relations. The training focuses on Interest-Based Negotiations and Collective Bargaining by Objectives. This training will be very important as the privatization process, in which Solidarity maintains a strong involvement, continues.

The Union has been instrumental in providing the leadership necessary to develop the "Regional Contract for Katowice" which in a very comprehensive way sets forth regional policies for addressing the socio-economic needs of the Silesian region that result from the restructuring of the regional industrial base, especially the coal, steel, and energy sectors. In Silesia, Solidarity works in partnership with U.S. DOL in developing a pilot re-employment fund to test methods to redeploy the labor force made redundant by the restructuring of the coal sector.

In Poland, DOL is expected to achieve the following results:

● **National Employment Services** (PACD 12/96) will strengthen the capacity of Polish public employment services through assessments of all regional labor offices, and the training of 49 regional vocational assessment specialists who will train all vocational counselors and develop and distribute a "Workforce Training Handbook."

● **The Lodz White Collar Skills Training** will provide vocational training in secretarial and computer skills, graduating 140 persons by PACD in 11/96, of whom at least 60% are expected to find employment within 10 weeks from the date of graduation.

● **Construction Crafts Skills Training Centers** (Warsaw-Praga and Gdynia; PACD 8/96) will have trained at least 3,000 construction workers by August 1996. The centers will be transferred to Polish control in 1997.

● The **Labor Management Relations** activity (PACD 9/96) will result in: the development of model innovative management-labor negotiations in 3 companies; 9 one-week training sessions plus 3 conferences on industrial labor relations and effective collective bargaining between management and unions.

● The **Self-Employment and Entrepreneurial Skills** (PACD 2/97) activity will develop a model program for skills training and employment of 20 persons with physical disabilities by PACD. This model will be publicized throughout Poland.

● The **Re-employment Advisory Center for Women** (PACD 3/98) will establish a model for non-governmental employment services to 400 workers in Gdansk region through public-private cooperation, and assist 3 other regions in Poland to adapt and replicate this model.

● The **Re-employment Fund** in Silesia (PACD 5/98) will develop and test a model that could be expanded under the forthcoming World Bank Sector Adjustment Loan. The pilot will assist 3,000 Silesian miners from two communities that are being laid off as a result of mine closure and restructuring.

● **PIER Mine Safety** (Implementor: Partners in Economic Reform)

This activity was initiated in response to an unsolicited proposal from PIER, with support from the US Embassy/Warsaw. FY 1996 incremental funding will constitute the final obligation for this activity to realize the following results in Silesian coal mines by October 1997:

● a reduction in risk of occupational accident and disease in at least two demonstration mines; and

● plans for improving occupational health and safety in up to 20 mines.

● **Environmental Health Project** -- (Grantee Implementor: Camp Dresser and McKee)

Implementation of the activity, using the final tranche of FY 1996 funds, will be completed in December 1996. Expected results include:

- a post-graduate curriculum module on environmental health developed at the Jagiellonian University School of Public Health, Krakow; and

- a case-study on a model environmental health intervention carried out in collaboration with the municipality of Krakow.

● **US Embassy Democracy Commission, Small Grants Program** --  
(Implementor: US Embassy Warsaw, Democracy Commission)

This activity is an important ongoing initiative of the US Embassy Democracy Commission, providing grant support on a competitive basis, to bolster struggling Polish NGOs by paying either their start-up costs or some of the costs of their promotion of Polish democracy. Each year \$350,000 will continue to be programmed for small grants to Polish individuals and NGOs engaged in democracy-building activities. Grants range up to \$24,000, though many are under \$10,000. Examples of initiatives that received assistance in the past: training of trainers for teaching civic skills, advocacy on behalf of the handicapped, women's organizations, environmental awareness-building, citizen committees devoted to the strengthening of schools and groups that address social problems like child abandonment.

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**B. Status of Management Contract: Life of Objective Funding**

USAID has calculated the following life-of-objective funding levels for our three strategic objectives. Cumulative obligations through FY 96 for Private Sector S.O. 1.3 total \$407 million (including \$256 million for PAEF). By the end of FY 99, using the request level for FY 98 (rather than the low option alternative), obligations for this objective are proposed to total \$425 million (including \$256 million for PAEF). This represents 47% of life of program USAID funding for Poland (of which PAEF is 28% of total USAID portfolio over life of assistance program). The share of funding of this S.O. is reduced to 37% of total portfolio over life of USAID assistance to Poland if PAEF and the Bank Recapitalization Fund are excluded from the calculation.

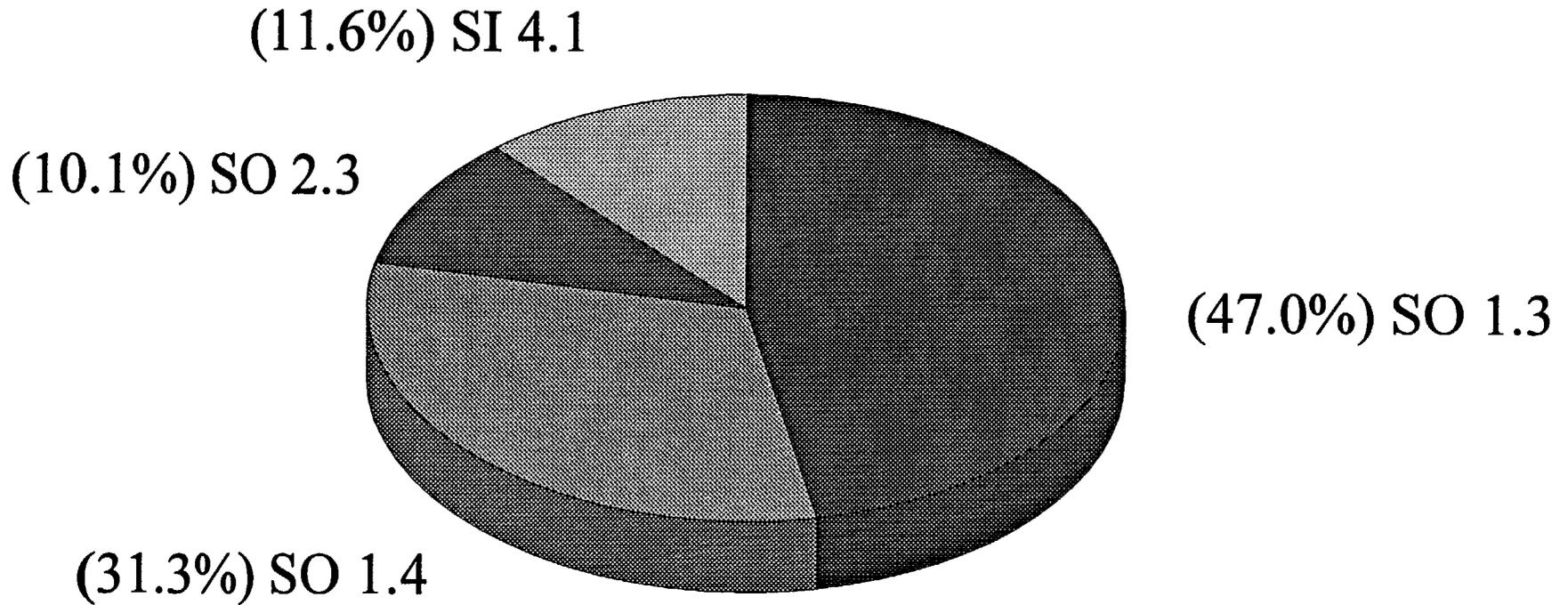
For Financial Sector S.O. 1.4, cumulative obligations through the end of FY 96 will total \$260 million (including \$200 million for bank recapitalization). By the end of FY 99, using the request level for FY 98 (rather than the low option alternative), obligations for this objective are proposed to total \$283 million (including \$200 million for bank recapitalization). This constitutes 31% of life of USAID program portfolio resources, reduced to 19% if PAEF and the Bank Recapitalization Fund are excluded from the calculation.

For Local Government S.O. 2.3, cumulative obligations through the end of FY 96 will total \$49 million. By the end of FY 99, using the request level for FY 98 (rather than the low option alternative), obligations for this objective are proposed to total \$92 million. This represents 10% of life of portfolio assistance to Poland, increased to 21% if PAEF and the Bank Recapitalization Fund are excluded from the calculation.

Strategic Initiatives (4.1) constitute \$94 million of cumulative obligations through the end of FY 96. Budget projections in this Strategy (using the request level for FY 98 rather than the low option alternative) would result in life of portfolio funding of \$104 million for Special Initiatives. This represents 12% of life of assistance portfolio, increased to 24% if PAEF and the Bank Recapitalization Fund are excluded from the calculation.

# Life of Program Funding by SO

FY 1990-1999

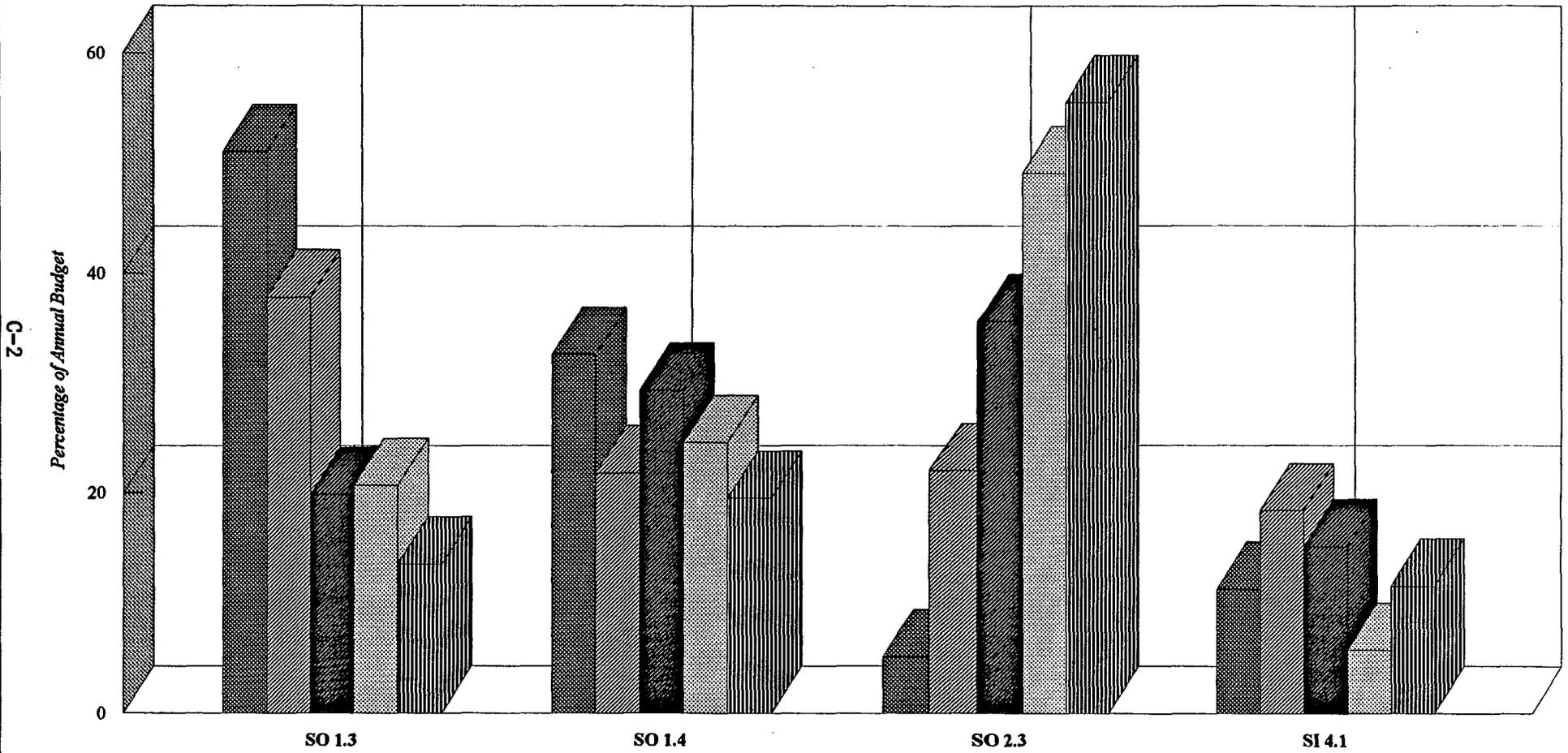


*Including Bank Recapitalization & Enterprise Fund*

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**Funding Life of Each Objective**  
*Including Bank Recapitalization & Enterprise Fund*



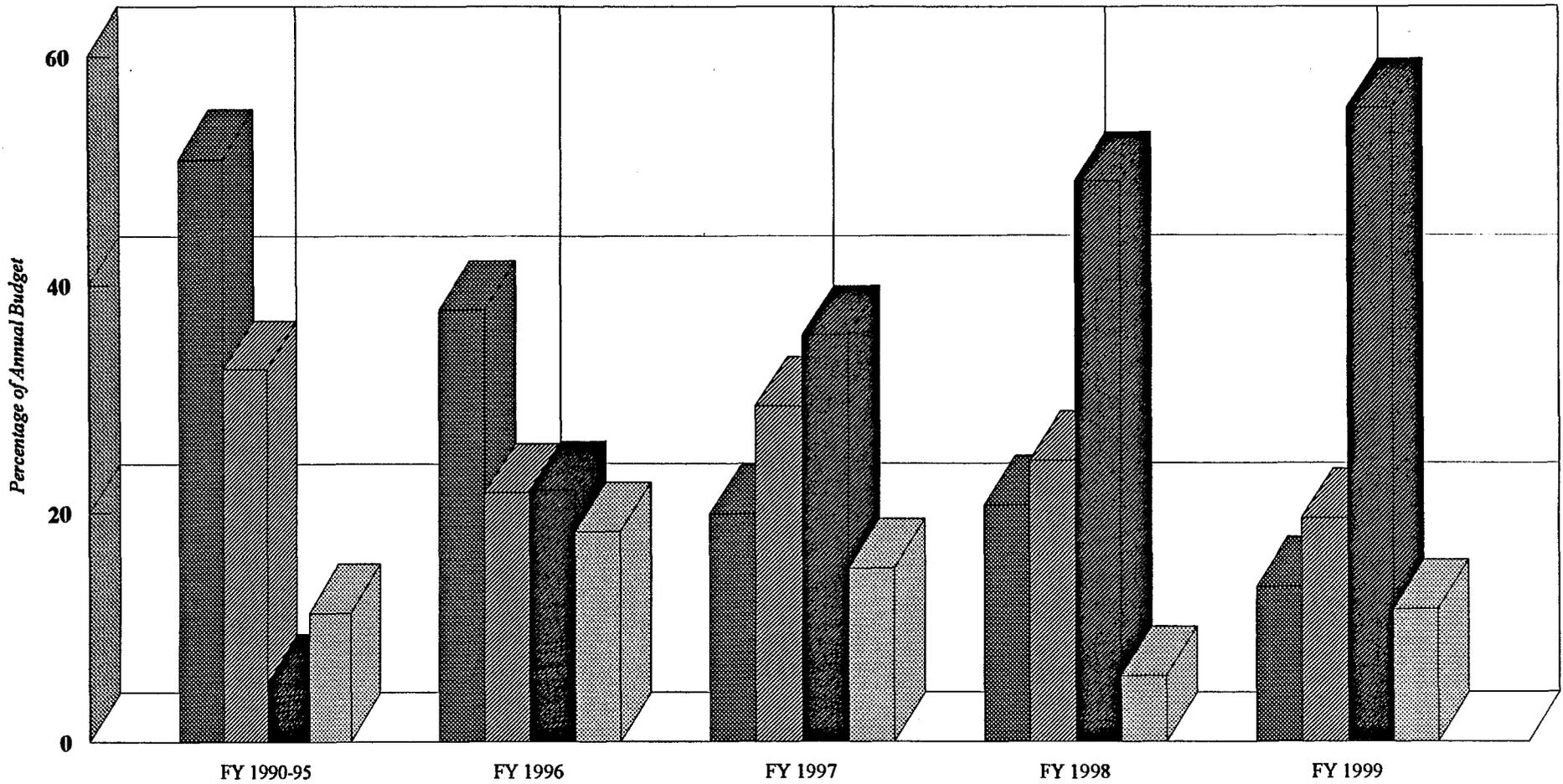
FY 1990-95  
  FY 1996  
  FY 1997  
  FY 1998  
  FY 1999

(budget in \$ 000)  
 Uses high option for FY 98

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# Relative Emphasis on SOs by Year

*Including Bank Recapitalization & Enterprise Fund*



■ SO 1.3    ▨ SO 1.4    ■ SO 2.3    ▩ SI 4.1

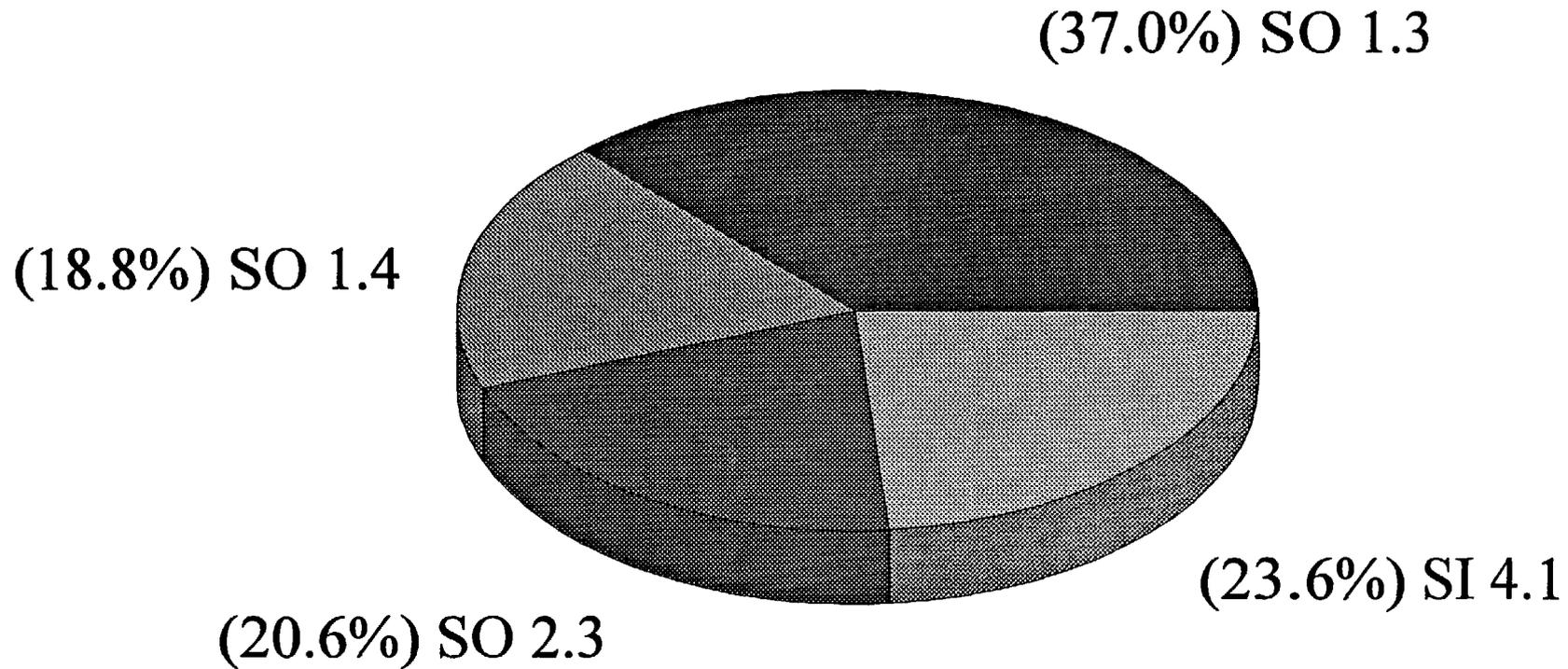
(budget in \$ 000)  
Uses high option for FY 98

C-3

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# Life of Program Funding by SO

FY 1990-1999

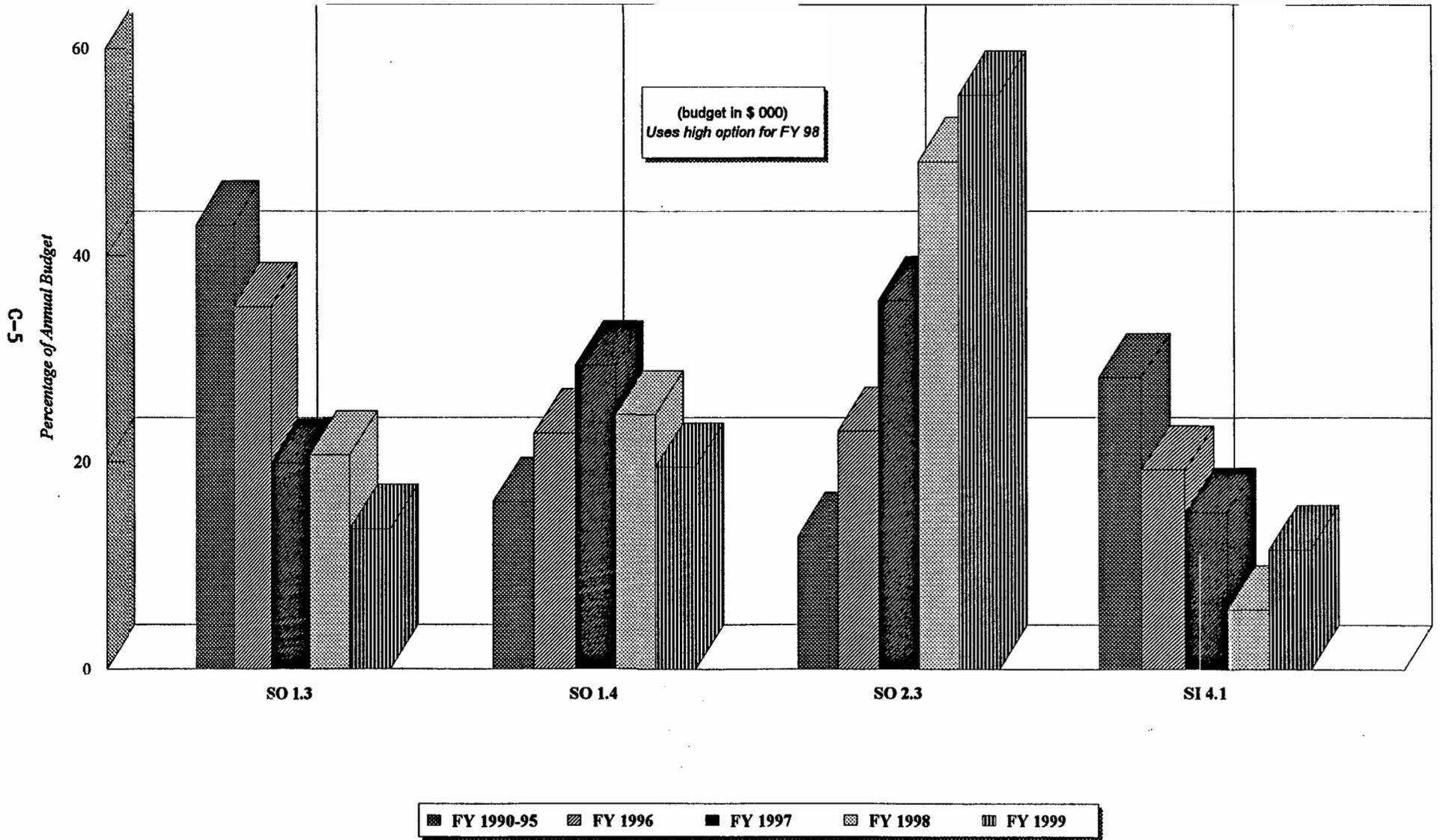


*Excluding Bank Recapitalization & Enterprise Fund*

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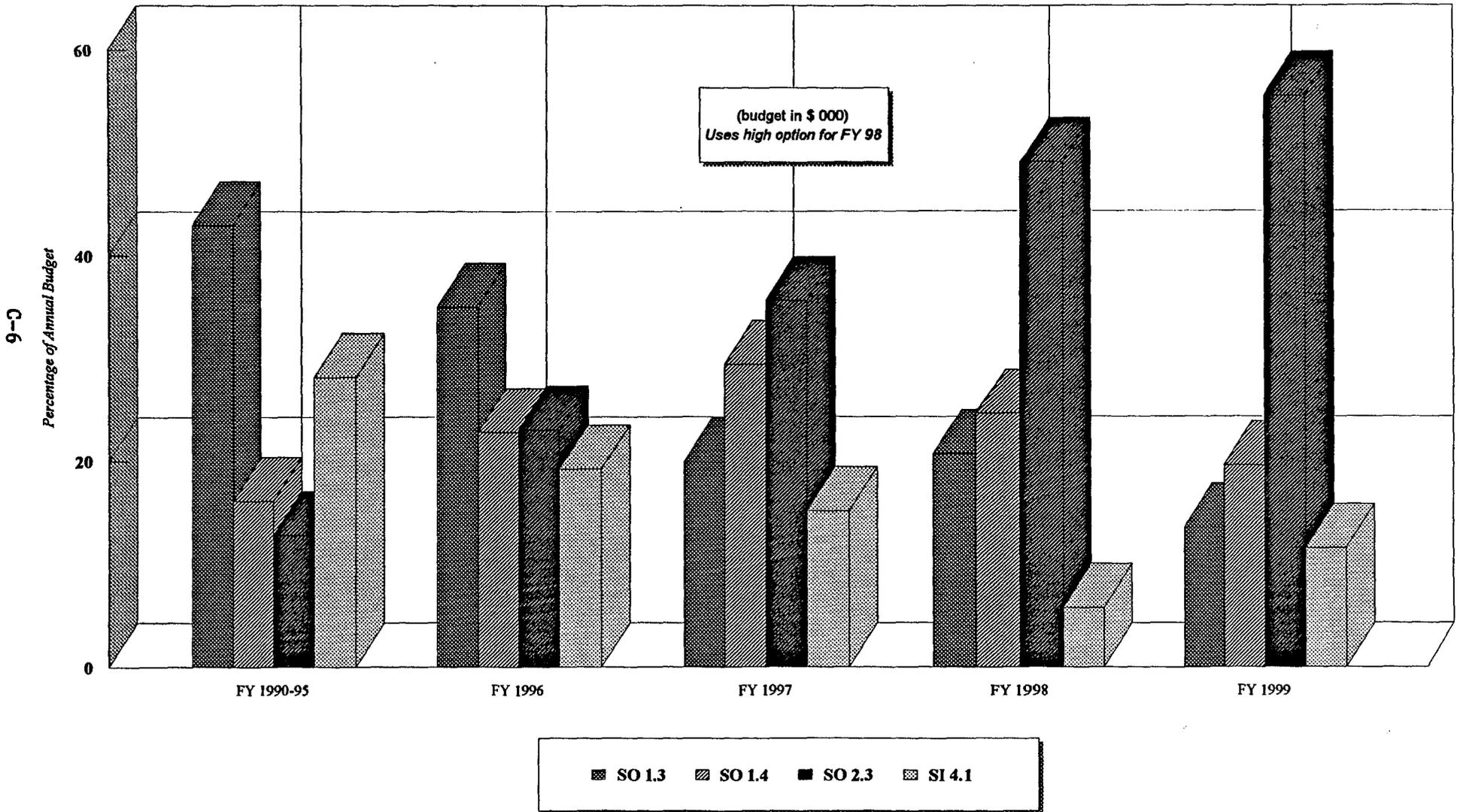
**Funding Life of Each Objective**  
*Excluding Bank Recapitalization & Enterprise Fund*



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### Relative Emphasis on SOs by Year

*Excluding Bank Recapitalization & Enterprise Fund*



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## USAID/Poland Graduation Plan Budget FY 1996-1997

<b>Strategic Objective</b>	<b>FY 1996 (\$46 mln)</b>	<b>FY 1997 (\$40 mln)</b>
 <b>SO 1.3 Private Sector Enterprise Development</b>		
IR1: Policies, laws and regulations	2,291	765
IR2: Improved profitability of SME enterprises	15,121	7,185
<b>SO 1.3 Sub-Total:</b>	<b>17,412</b>	<b>7,950</b>
 <b>SO 1.4 Financial Sector Development</b>		
IR A: Increased confidence in the financial sector	1,961	2,100
IR B: Improved efficiency of financial markets	5,512	6,520
IR C: Increased availability of financial services and products	2,549	3,130
<b>SO 1.4 Sub-Total:</b>	<b>10,022</b>	<b>11,750</b>
 <b>SO 2.3 Local Government</b>		
IR1: Increased influence of local gov't. on national and regional policies	1,718	2,880
IR 2: Participation in local government decision-making increased	1,142	1,190
IR 3: Increased capacity to deliver services and manage resources efficiently	5,831	6,340
IR 4: Improved indigenous mechanisms for support to local governments	1,426	3,840
<b>SO 2.3 Sub-Total:</b>	<b>10,117</b>	<b>14,250</b>
 <b>Support to all three Strategic Objectives:</b>		
<b>Support to all three SOs Sub-Total:</b>	<b>1,681</b>	<b>2,750</b>
 <b>SAA 4.1 Special Initiatives:</b>		
<b>SAA 4.1 Sub-Total:</b>	<b>6,768</b>	<b>3,300</b>
<b>FY Total Budget (in \$ 000'):</b>	<b>46,000</b>	<b>40,000</b>

## USAID/Poland Graduation Plan Budget FY 1998

<b>Strategic Objective</b>	<b>FY 1998H (\$35 mln)</b>	<b>FY 1998L (\$28 mln)</b>
<b>SO 1.3 Private Sector Enterprise Development</b>		
IR1: Policies, laws and regulations	1,700	780
IR2: Improved profitability of SME enterprises	5,522	4602
<b>SO 1.3 Sub-Total:</b>	<b>7,222</b>	<b>5,382</b>
<b>SO 1.4 Financial Sector Development</b>		
IR A: Increased confidence in the financial sector	2,750	2500
IR B: Improved efficiency of financial markets	4,350	3300
IR C: Increased availability of financial services and products	1,500	1000
<b>SO 1.4 Sub-Total:</b>	<b>8,600</b>	<b>6,800</b>
<b>SO 2.3 Local Government:</b>		
IR1: Increased influence of local gov't. on national and regional policies	555	355
IR 2: Participation in local government decision-making increased	1,725	1725
IR 3: Increased capacity to deliver services and manage resources efficiently	8,983	6623
IR 4: Improved indigenous mechanisms for support to local governments	5,915	5115
<b>SO 2.3 Sub-Total:</b>	<b>17,178</b>	<b>13,818</b>
<b>Support to all three Strategic Objectives:</b>		
Monitoring support	80	80
Evaluations and strategic assessments	420	420
<b>Support to all three SOs Sub-Total:</b>	<b>500</b>	<b>500</b>
<b>SAA 4.1 Special Initiatives:</b>		
<b>SAA 4.1 Sub-Total:</b>	<b>1,500</b>	<b>1500</b>
<b>FY Total Budget (in \$ 000'):</b>	<b>35,000</b>	<b>28,000</b>

## **Mission Use of Global Bureau Implementation Mechanisms**

### **Office of Health/Data for Decision-making (DDM)**

USAID/Poland is making excellent use of the Office of Health's, Data for Decision-making (DDM) Project -- a cooperative agreement with the Harvard University School of Public Health -- to implement the Local Government Health Management (LGHM) activity. USAID/Poland has obligated \$800,000 in FY '95 funds and \$880,000 in FY '96 funds for this activity. A follow-on FY 98 obligation of \$700,000 is tentatively budgeted, depending on demand in partner cities for health services models. The rationale for selecting this Global Bureau resource is based on having a readily-available, appropriately-qualified implementer, which saves the Mission from de novo competitive procurement. The implementation of this activity is proceeding very satisfactorily, with excellent, flexible cooperation and smooth communication between USAID/Poland management, the AID/W Global Bureau DDM project managers, and Harvard University.

### **Loan Portfolio Guarantee (LPG)**

One Polish bank has currently entered the Loan Portfolio Guarantee (LPG) facility. The program has been explained to about eight other Polish banks, and 4 banks have expressed serious interest in applying for the program. USAID/Poland in furtherance of its financial sector objective, will propose that four additional Polish banks enroll, with a geographic dispersion that matches that of both the partner cities that we will assist under our Local Government Strategic Objective and the business support organizations that will be strengthened through our new small business assistance activity. The Polish banking system lends predominantly to current and former state-owned enterprises. The LPG program, by sharing in the risk of default, encourages banks to begin lending to the rapidly growing small business sector which needs investment and working capital, but has little access to formal finance. USAID/Poland requests that Global Bureau finance the \$750,000 required credit risk reserve for a guarantee limit of \$10 million.

### **World Learning**

In FY 97, USAID/Poland will buy into the worldwide participant training project for \$250,000 of participant training processing services in the U.S. and third countries, in support of our portfolio. This is a multi-year buy-in that will cover processing needed in FY 97-99.

## RHUDO

The Global Bureau's Office of Urban Programs, through its Regional Housing and Urban Development Office (RHUDO) in Warsaw, has provided capital inputs to the USAID/Poland program through the Housing Guaranty (HG) Program. To date, \$25 million in HG loan resources have been authorized and Poland has borrowed \$10 million. USAID's HG funds have been used to leverage an additional \$100 million in loans from IBRD and EBRD, as well as the Government of Poland. The objective of the HG is to increase the supply of housing and enhance the role of the private and public sectors in establishing a market-oriented real estate market. The strategy being implemented by USAID/Poland is to provide capital resources through the HG supported by technical assistance to address key constraints in the prevailing housing system through the further development of housing and infrastructure finance systems; municipal capacity to support new housing development; requisite policy and legal reform; and increased private sector capacity in both the financing and delivery of housing.

An additional \$10 million in HG resources has been requested by the Government of Poland to support the development of Poland's municipal finance system. Currently, this request is on hold, due to the limited amount of appropriated credit risk reserve funds available worldwide, which has already been committed to higher priority countries. If this situation changes, and a policy determination is finalized by the Agency regarding pre-credit reform HG programs, Poland would request credit risk set-aside from the Global Bureau in support of a \$10 million HG for municipal finance, especially to test new mechanisms such as a "small city bond pool" for lending to smaller, poorer cities.

Global's Office of Urban Programs also supports RHUDO/Warsaw's Operating Expense budget. This OE budget is approximately \$400,000 per year and supports a staff of two USDH and four FSNs. We request that this level of staffing and OE continue through FY 1999.

**ALL RESOURCE TABLES  
USAID / POLAND**

(\$000)

Funding Category	FY 1996	FY 1997	FY 1998	
			Base	Base - 20%
<b>Development Assistance / SEED:</b>				
Economic Growth	28554	21532	16122	12482
Democracy	13996	17818	18878	15518
Population/Health	1450	650	0	0
Environment	2000	0	0	0
<b>SEED SUB-TOTAL:</b>	<b>46000</b>	<b>40000</b>	<b>35000</b>	<b>28000</b>
<b>Other:</b>				
(1) HG Credit Subsidy from GLOBAL:	0	1200	0	0
(2) RHUDO OE	400	400	400	400
(3) Loan Portfolio Guarantee		750		
<b>GLOBAL SUB-TOTAL:</b>	<b>400</b>	<b>2350</b>	<b>400</b>	<b>400</b>
<b>GRAND TOTAL:</b>	<b>46400</b>	<b>42350</b>	<b>35400</b>	<b>28400</b>

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### III. FY 1999 Resource Request

The following table presents our request by Strategic Objective and Intermediate Result for FY 1999. More than half of resources will be needed to achieve planned targets for the Local Government Objective 2.3. At this point, we expect that Poland's progress under S.O. 1.3 and S.O. 1.4 will justify a final tranche of funding at about 14% and 20% of the year's funding level, respectively.

The U.S. Ambassador believes that some flexibility will be needed in the programming of up to \$2 million for Special Initiatives. These funds may be needed during FY 2000 to address critical bottlenecks in Poland's graduation from USAID assistance, and its orderly completion of its transition to democracy and markets. It is likely that we will only be able to identify those bottlenecks and program and obligate these funds towards the end of FY 1999.

## USAID/Poland Graduation Plan Budget FY 1999

<b>Strategic Objective</b>	<b>FY 1999 (\$20 mln)</b>
<b>SO 1.3 Private Sector Enterprise Development</b>	
IR1: Policies, laws and regulations	1,190
IR2: Improved profitability of SME enterprises	1,510
Staff requirements:	0
<b>SO 1.3 Sub-Total:</b>	<b>2,700</b>
<b>SO 1.4 Financial Sector Development</b>	
IR A: Increased confidence in the financial sector	2,350
IR B: Improved efficiency of financial markets	1,300
IR C: Increased availability of financial services and products	250
Staff requirements:	0
<b>SO 1.4 Sub-Total:</b>	<b>3,900</b>
<b>SO 2.3 Local Government</b>	
IR1: Increased influence of local gov't. on national and regional policies	175
IR 2: Participation in local government decision-making increased	625
IR 3: Increased capacity to deliver services and manage resources efficiently	4,335
IR 4: Improved indigenous mechanisms for support to local governments	5,875
Staff requirements:	90
<b>SO 2.3 Sub-Total:</b>	<b>11,100</b>
<b>Support to all three Strategic Objectives:</b>	
PD&S Data collection/monitoring contract	300
<b>Support to all three SOs Sub-Total:</b>	<b>300</b>
<b>SAA 4.1 Special Initiatives:</b>	
<b>SAA 4.1 Sub-Total:</b>	<b>2,000</b>
<b>FY Total Budget (in \$ 000'):</b>	<b>20,000</b>