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ENI BUREAU

RESULTS FRAMEWORKS FOR STRATEGIC OBJECTIVES

USAID/Slovakia

**APPROVED
DECEMBER 1996**

PART II

STRATEGIC OBJECTIVE

RESULTS REVIEW

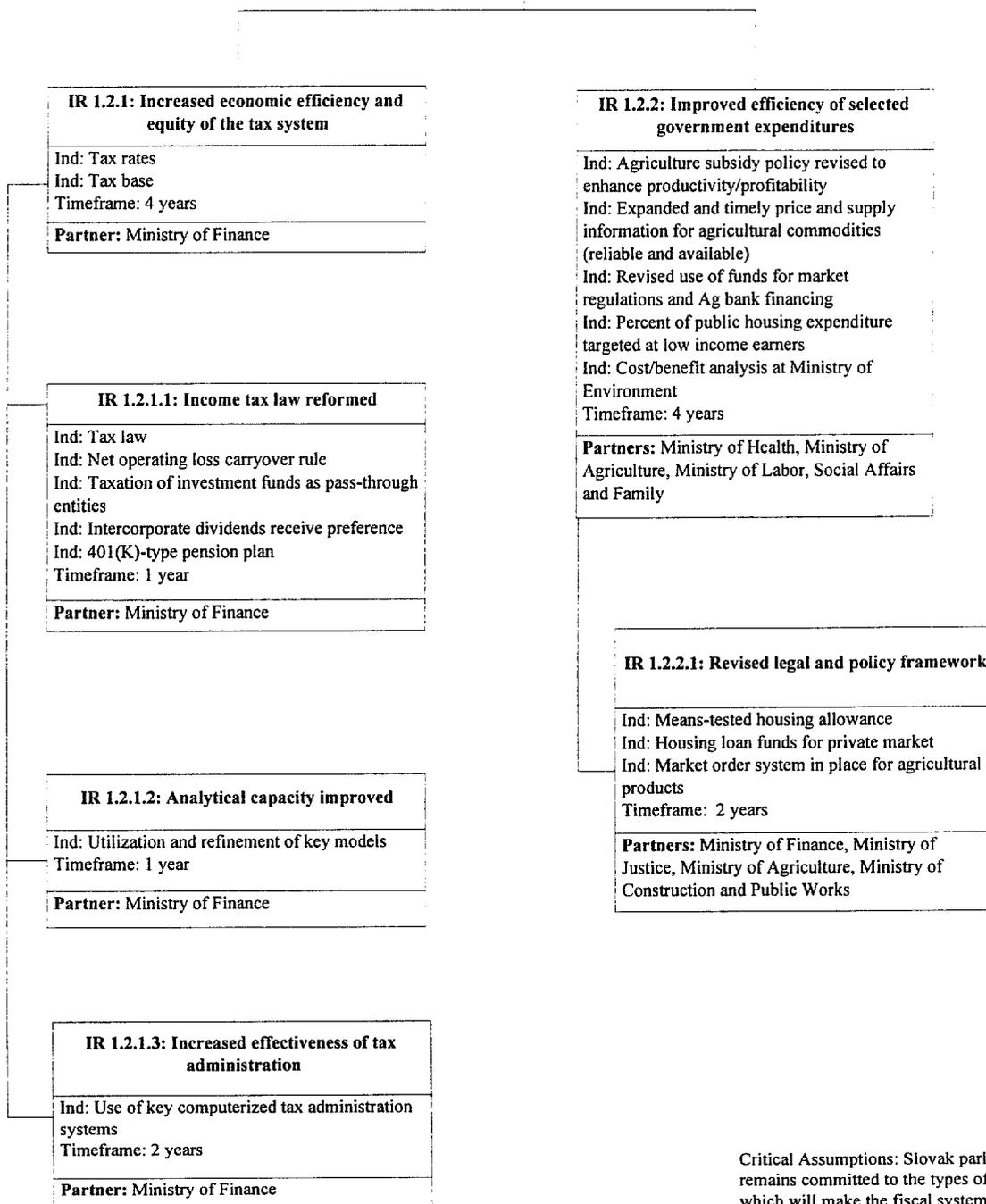
SO 1.2

INCREASED SOUNDNESS
OF FISCAL POLICIES
AND FISCAL MANAGEMENT
PRACTICES

**SO 1.2: Increased Soundness of Fiscal Policies
and Fiscal Management Practices**

Ind: Total public budget as percent of GDP
Timeframe: 4 years

Partners: Ministry of Finance, EU PHARE



Critical Assumptions: Slovak parliament remains committed to the types of reforms which will make the fiscal system more compatible with a market economy. No major downward movement occurs in economy.

Part II: Results Framework Narrative

SO 1.2: Increased Soundness of Fiscal Policy and Fiscal Management Practices

A. Transition Hypothesis:

Under Strategic Assistance Area I: Economic Restructuring, USAID/Slovakia has chosen ENI's SO 1.2: Increased Soundness of Fiscal Policy and Fiscal Management Practices as one of three SOs in Strategic Assistance Area I. The rationale for this is that sound fiscal management is critical to the sustainability of Slovakia's transition to a more market-oriented economy. In that way, work under SO 1.2 reinforces that under SO 1.3 and SO 1.4 in important ways. Unlike some other countries in the ENI region, Slovakia managed to move through the early years of its economic transition without succumbing to the temptation to abandon fiscal discipline and utilize inflationary financing to compensate for the shock to the troubled productive sectors. With the exception of the first six months following independence in January 1993, the government has not faced a serious fiscal crisis. With added support of an IMF standby program, the Government of Slovakia (GoS) managed steadily to reduce its fiscal deficit and effectively achieved a budget balance in 1995.

Despite such an admirable performance in stabilization and in achieving virtual fiscal balance, further fiscal reforms are necessary in order to modify the microeconomic disincentives remaining in the tax system. There are inequities in the tax system that may adversely affect public acceptance of the transition. To some extent, the effort to balance the national budget has come at the expense of reductions in government services from levels which the public had come to expect but are no longer affordable. Improved efficiency in the delivery of public services is another important element in sustaining public support for the transition, as well as in reducing the government's demand on resources that will be needed by a growing private sector.

Therefore, the development hypothesis underlying USAID/Slovakia's pursuit of this strategic objective is that increasing the soundness of fiscal policy and public financial management practices in Slovakia will lead to a more efficient and equitable allocation of resources in the economy, a more sustainable growth rate of gross domestic product, and a smoother transition to a market-based economy.

B. Critical Assumption:

An assumption critical to achieving this objective is: The Government of Slovakia remains committed to the types of reforms that will make the fiscal system more compatible with a market economy. Government interest in the microeconomic aspects of tax reform has waxed and waned, but has rarely been a central focus. Understandably, in the first three years following independence, while the country was building a government from the ground up, the greatest concern was in developing the institutional and staffing capacity to run any kind of government and to avoid falling into a major fiscal crisis. Aggregate revenue collection and expenditure reduction were the foremost concerns.

Having achieved fiscal stability, the GoS is now in a position to devote more attention to the incentive and distributional effects of the tax system and to consider ways of further reducing the deadweight burden the public sector may still impose on the economy. Until recently, little interest was shown in these issues and a political agenda, including consolidation of power by the GoS was clearly the first priority. However, in recent months, the Ministry of Finance (MoF) has approached the US resident advisor more frequently and appears to be increasingly aware of the relevant issues. Tax reforms are under discussion. The time is ripe to have a significant positive impact on the situation. However, if the GoS gives priority to political objectives at the expense of economic objectives, it will severely affect the ability of this program to have the desired effect and the merit of pursuing this SO would have to be reconsidered.

C. Causal Linkages:

Based on the transition hypothesis, two key intermediate results have been identified that support the strategic objective. These include: increased economic efficiency and equity of the tax system and improved efficiency of selected government expenditures.

IR 1.2.1: Increased economic efficiency and equity of the tax system. The current tax policy and administration practices in Slovakia are inefficient and unfair and impose a significant burden on the economy. They also have the effect of delaying the transition from a centrally-planned to a market economy. Tax rates are so high they distort economic behavior and impose a significant welfare cost on society. These rates are high in part because of major loopholes in the tax law and a high degree of tax evasion. Tax evasion is high because enforcement activities of the tax administration are inefficient and ineffective, and because the tax administration office does not have the legal authority it needs to effectively enforce the tax laws. Moreover, the tax burden appears to be borne disproportionately by lower-income individuals who have less ability to pay. It is clear the GoS needs to lower its tax rates and broaden its tax base by eliminating loopholes, giving the tax administration the authority to enforce the tax laws, and taking advantage of current computer technology to automate tax administration procedures. To achieve this intermediate result, three lower level intermediate results have been identified.

IR 1.2.1.1: Income tax law reformed. When Slovakia became independent in 1993, it implemented a tax system based on that which had existed under the previous Federation. That included introducing a Value Added Tax on individual income tax and a corporate tax. An update and reform of the income tax law is in order. The GoS recognizes this and has begun discussions on reform. Although not confiscatory as has historically been the case in some other countries, Slovakia's marginal tax rates are still higher than is optimal for vibrant growth of the private sector. It may be argued that lower rates in themselves will generate supply side effects that will tend to increase revenues. Notwithstanding, there are limits to which rates can be cut without offsetting policy measures that will broaden the tax base. Other measures reduce impediments that make supply side responses more likely and more powerful.

While there are a host of tax issues that should be addressed, the US Treasury advisor has identified three which merit particular attention: the net operating loss carryover rule, the taxation of investment funds as pass-through entities and the intercorporate dividends received preference. Current law limits the ability of a business to carry over losses in one year to offset gains in another. This has the effect of imposing a higher tax burden on new businesses and is clearly a disincentive to the growth and development of the private sector. Securities held directly by investors are presently taxed more lightly than those held indirectly through investment funds, adding a disincentive to use those funds. This adds to investment risk and may be an impediment to capital market development. When a corporation receives dividends from shares it owns in another corporation, current law taxes those as income. In many countries corporate income is "taxed twice", once as corporate income and a second time as individual tax on dividend income. The present Slovak law in effect adds a third level for some Slovak corporations and may influence the way in which businesses organize themselves. The tax policy advisor will work with the MoF to examine these and other provisions and to attempt to have them modified in any new law. The advisor will also work to devise tax incentives to encourage individuals to save for their own retirement through schemes similar to the US 401(k) provision.

IR 1.2.1.2: Analytical capacity improved. Good policy requires good information. In order to make efficient or equitable tax policy decisions, it is important the reformers be well informed of consequences of various alternative reform proposals, as well as the relative economic effects of different kinds of taxes. The MoF presently has little internal capacity to do such analysis. Although it can forecast overall revenues and those from some specific taxes based on work the tax advisor has done, the models do not have the refinement necessary to assess the impact on different groups and on the economy as a whole on changes other than tax rate changes. The US Treasury advisor is assisting the MoF in developing more sophisticated and disaggregated tax models. The MoF has recently provided the advisor with a data base of 45,000 tax returns that can be used for this purpose. The advisor also has acquired household expenditure survey data that will be used to develop a micro-simulation model. The models themselves and the enhanced skills of the MoF staff will enable the GoS to assess more fully the impact of proposed policy changes, and hopefully to adopt more efficient and equitable policies.

IR 1.2.1.3: Increased effectiveness of tax administration. Ineffective and inconsistent administration fosters overall economic inefficiency by distorting economic behavior as some activities effectively escape taxation, while others do not. It creates inequities by permitting some individuals, groups or entities to be taxed more lightly than others for the same activity or kind of income. In Slovakia, it seems lower income

groups bear a disproportionate tax burden (in the future tax modeling will enable analysts to document the distribution of the tax burden). Finally, poor enforcement means lost revenue, which is made up by, in effect, shifting the burden in the form of higher taxes for those who do pay. These problems can be mitigated by improving and modernizing Slovakia's tax administration system, including improved management information systems, automation, and increased enforcement authority. The Treasury advisory team and USAID/Slovakia have been disappointed in the MoF's past lack of interest in advice to assist in reform of collection systems and procedures. However, the recent breakthrough in obtaining income tax data opens up the possibility for developing certain computerized tax administration systems, including those listed as indicators. Important progress can therefore be made, even though the MoF at present does not feel the need to engage in a full-scale tax administration program.

IR 1.2.2: Improved efficiency of selected government expenditures. On the expenditure side of the budget, inefficient policies and procedures are carried over from the former system. These result in excessive expenditures to achieve given government objectives. While there are myriad issues that could be addressed, USAID/Slovakia's work on expenditures is narrowly focused on achieving specific results in housing, agriculture and environment at the national budget level, while working more extensively at the local level (see SO 2.3). These specific results are important to advancing and complementing our work in other strategic objectives, such as private enterprise development, housing privatization, more effective and responsive local government are more cost-effective environmental policies.

IR 1.2.2.1: A revised legal and policy framework. This intermediate result will be required before it is possible to achieve increased fiscal efficiency through targeted housing subsidies. The government has just adopted a housing revolving loan fund which is to be capitalized out of the state budget. The legislation is written in such a way that the loan funds can be used to support the private housing market, or to replace it. There is still a question of whether the GoS will burden future budgets by making commitments to such extended obligations as an interest rate write-down on a 30-year loan. How the funds will be used, and what the impact will be on the private market and on future public budgets will depend largely on how the Ministry of Construction and Public Works writes the rules and regulations. USAID funded a US study tour for MoF officials to look at how revolving loan funds are targeted to lower income groups, how loan funds are used to facilitate the flow of private capital into housing and how funds are used to avoid encumbering future public budgets.

Housing allowances. The means of funding housing allowances is typical of the kinds of subsidies that pervaded the old system and which are now no longer affordable. Under socialism, the state was the primary provider of housing. The state financed multiple unit housing, state-owned firms constructed it and state-owned firms managed it. Rents were tightly controlled at a level too low to provide an income stream sufficient to maintain the housing. All tenants of this housing, regardless of income, are in effect getting an indirect subsidy. The state has been reluctant to relax rent controls because of the impact on the poor. To deal with this problem, USAID contractors have been working with the Ministry of Labor, Social Affairs and Family to design a housing allowance program that would target the housing subsidy by supplementing the income of poor tenants so they could afford to pay increased rent. Higher income groups would pay the increased rent without assistance from the state.

Agriculture policy. The agricultural sector is still in some ways similar to the pre-1989 system with mediocre levels of production of few agricultural products, extremely large numbers of employees and, as a result of 40 years of restructuring of the rural society, a rural structure dependent upon direct or indirect subsidies. Lack of information enables the present situation of subsidies to continue, although this does not result in benefits to the majority in the sector. While not condoning the practice of subsidies, USAID/Slovakia does support the improvement of the information system on which improved distribution of subsidies depends. All progress in the agricultural sector is dependant upon desirable agricultural production conditions and the support and cooperation needed to foster effective relationships.

Environmental policy. Since before the collapse of the old system, Slovakia has consistently been in the forefront of the environmentally conscious. The GoS has adopted a number of stringent regulations and aims to be in compliance with EU standards by 1998. However, to reach such an objective could be

enormously costly for a country just emerging from an economic crisis and attempting to meet the additional financial demands of an economic transition. Cost effectiveness therefore needs to be a central element in Slovakia's efforts to meet such standards. This will involve at least two elements. The first is increased use of market incentives in place of command-and-control systems of enforcement, as discussed in connection with SO 3.3. This not only increases efficiency in the economy as a whole, but also reduces the direct drain on the national government budget. The second means of reducing the budget burden of the government's own environmental projects is to rate and select them after applying well-accepted cost/benefit analyses in the decision process. USAID/Slovakia, through its activity with the Harvard Institute for International Development will help the government to achieve these efficiencies through training and policy advice.

PART II: PERFORMANCE ASSESSMENT

Table I - Performance Data

Baseline, Targets, and Actual Results

SO 1.2: Increased Soundness of Fiscal Policies and Fiscal Management Practices

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	Increased soundness of fiscal policies and fiscal management practices	Total public budget as percent of GDP	Definition: Unit: Percent	1994	41%			38%				36%			
IR 1.2.1	Increased economic efficiency and equity of the tax system	Tax rates	Definition: Top individual tax rate (ind) Corporate rate (corp) Unit:	1995	42% (ind) 40% (corp)			40%				38%			
		Tax base	Definition: Number of individual and corporate taxpayers Unit:	1995	2.2 m (ind) 32,000 (corp)		2.2 m (ind) 32,000 (corp)	2.5 m (ind) 35,000 (corp)		2.8 m (ind) 38,000 (corp)		3.0 m (ind) 41,000 (corp)		3.1 m (ind) 43,000 (corp)	
IR 1.2.1.1	Income tax law reformed	Tax law	Definition: Comprehensive amendments Unit:					enacted							
		Net operating loss carryover rule	Definition: Unit:					revised							

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Taxation of investment funds as pass-through entities	Definition: Unit:					enacted							
		Intercorporate dividends receive preference	Definition: Unit:					enacted							
		Ind. 401 (K)-type pension plan	Definition: Unit:					enacted							
IR 1.2.1.2	Analytical capacity improved	Utilization and refinement of key models	Definition: A) VAT model Unit:	1995	none			in use							
			Definition: B) Individual income and social security tax model Unit:	1995	none	in use									
			Definition: C) Tax receipts monitoring and forecasting model Unit:	1995	being developed	in use									

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RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Percent of public housing expenditure targeted at low income earners	Definition: Unit: percent	1995	30%		30%	60%		100%					
		Cost/benefit analysis at Ministry of Environment	Definition: Unit: percent	1995	none		none	20 officials using analysis		100%					
IR 1.2.2.1	Revised legal and policy framework	Means-tested housing allowance	Definition: Unit:					law passed							
		Housing loan funds for private market	Definition; Unit:					regs adopted							
		Market order system in place for agricultural products	Definition: Unit: Increased quality and availability of fresh fruits and vegetables				suggest language for prompt payment law	prompt payment law passed							

PART II

STRATEGIC OBJECTIVE

RESULTS REVIEW

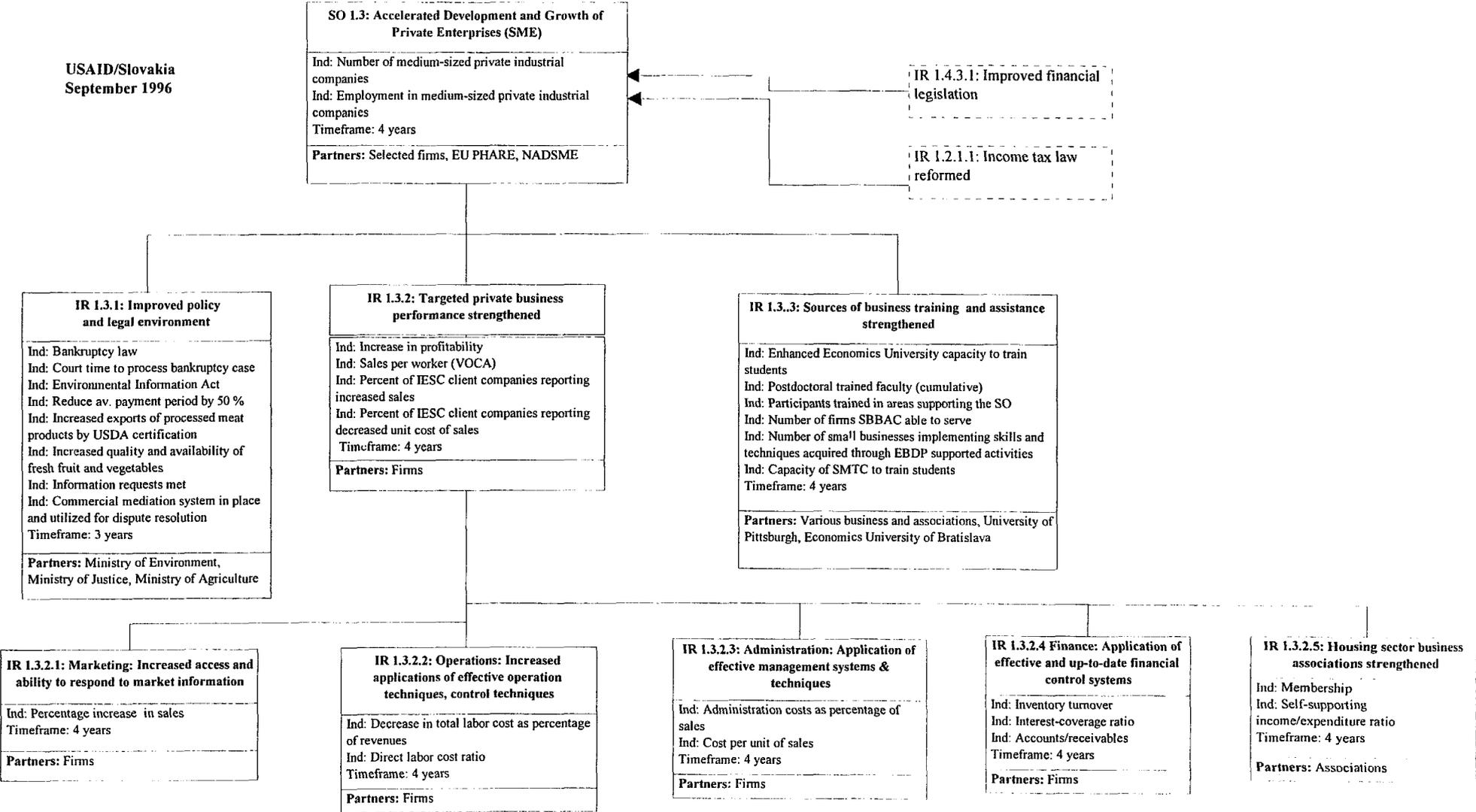
SO 1.3

ACCELERATED DEVELOPMENT

AND GROWTH OF

PRIVATE ENTERPRISES (SME)

USAID/Slovakia
September 1996



Critical Assumptions: EU economies do not experience serious recession before 1998.
 GoS continues to encourage SME development and does not adopt policies favoring large enterprises.

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Part II: RESULTS FRAMEWORK NARRATIVE

SO 1.3: Accelerated Development and Growth of Private Enterprises (SME)

The wording for this strategic objective has been modified slightly to indicate that the primary target is already privatized small and medium-size enterprises, defined as those which employ between 50 and 1,000 people. The enterprise restructuring project targets firms which employ between 100 and 1,000.

A. Transition Hypothesis:

This SO is essentially a new focus for the OAR. In the early years of the program the emphasis was on privatization, defense conversion and restructuring of large state-owned enterprises. Support was provided to two huge chemical companies and two former armaments producers. Support was provided to the chemical companies to assist them in restructuring for privatization and to former armaments producers for defense conversion. The technical assistance was successful. However, these companies were selected because their large size made them "strategic" to the economy. Ironically, the same rationale was the factor that made the current GoS place them on the strategic list not to be privatized presently. Direct assistance to SMEs was limited to programs implemented by IESC, VOCA, Peace Corps and MBA Enterprise Corps. Later assistance focused on cooperating with EU PHARE to restructure 25 companies with the highest levels of nonperforming loans. USAID advisors successfully completed the project, but the World Bank EFSAL that had driven it did not materialize.

The time for the earlier focus on large state-owned companies has passed. The second round of privatization will be completed in mid-1996. According to official statistics, approximately 65 percent of GDP is now produced by the private sector. Additional privatization, if any, will take place slowly. The government has deemed former armaments producers and some utilities as "strategic" sectors in which it will retain a strong hand. Moreover, the government favors direct sales to "domestic capitalists" as the preferred means of privatization and is unlikely to request outside assistance or expertise. In light of these realities, in 1995 the OAR decided to shift the emphasis to a post-privatization mode. Implementation of this new objective began with pilot activities in the last quarter of FY 1995.

The transition hypothesis is that sustainable industrial growth in the long run will require that a core of small and medium sized companies be revitalized and strengthened. Small and medium enterprises currently represent the biggest segment of the European economy (EU and Associate Members). In its 1994 annual report, Slovakia's National Agency for the Development of Small and Medium Enterprises (NADSME) notes, "historically, the Slovak economy was built to be dependant on several industrial giants. Its position was thus vulnerable, because whenever one or more of the giant companies was in trouble, the entire economy started to totter. An economy with a substantial share of small and medium enterprises is more resistant to such quakes and it is more flexible in adjusting itself to global impacts. Small and medium enterprises quickly respond to change *and therefore lead the way to structural changes.*" [italics added]. According to NADSME, companies of up to 500 employees employ 60 percent of the entire workforce in Europe. In industry and services this figure reaches up to 70 percent. In 1994, sixty percent of employees of profit-oriented businesses worked for enterprises with less than 500 employees.

In addition to the cyclical vulnerability of an economy dominated by a few large firms, there is a long term growth vulnerability. The current 6 to 7 percent GDP growth rate in Slovakia appears to be influenced primarily by two forces. One is the appearance of large numbers of new small enterprises in the retail and service sectors. The other is the strong sales performance of a handful of huge industrial enterprises in the metals and chemicals sectors inherited from the previous regime. Some of the large firms can survive and compete in the world economy. Others may not be competitive in the long term as implicit subsidies and relatively cheap labor and raw materials become less available. If these large firms begin to falter, their sheer size will tend to drag the whole economy down with them. It is important to get some sense of the scale of this small country vis a vis the size of firms built to supply the former Eastern Bloc. Two of the largest firms each employ more than 25,000 workers. Four others each employ more than 10,000. Yet

Slovakia's population is only 5.3 million. GDP in 1994 was approximately \$13 billion and the labor force was about 1.9 million. Of that, 425,000 worked for companies employing between 25 and 499 workers. In the industrial sector 140,000 people worked for firms employing 100 to 499. One implication of this scale is that while on one hand small size makes Slovakia vulnerable to the fortunes of large firms, on the other hand positive impacts on SME firms can have a significant overall effect.

B. Critical Assumptions:

1. *EU economies do not experience a serious recession before 1998.* A number of SME firms in the industrial sector are in critical financial shape. Many will not survive. Many more of those implementing restructuring plans with USAID assistance will be able to survive if they have enough time to recover. A serious decline in regional markets that spread to Slovakia would undercut these firms before they were strong enough to withstand the business cycle.

2. *The GoS continues to encourage SME development and does not adopt policies favoring large enterprises.* Government rhetoric and some of its policies seem clearly aimed at improving the climate for small and medium businesses. However, there is at present a perceived resistance to allowing foreign capital to invest in Slovak companies, although some restructuring enterprises sorely need that investment and technology. Recently there has been increased speculation that there will be a "third wave" of privatization that will allow or even encourage foreign investment. As noted in connection with SO 1.2, there are important changes in tax policy that would improve the chances of survival for new firms.

C. Causal Linkages:

To achieve SO 1.3, the business performance of private SMEs must be strengthened so they can gain competitive advantages required to survive in a market economy. There are three key intermediate results which support SO 1.3: an enabling legal and regulatory environment, strengthened skills within enterprises, and the ability of the country's institutions to replicate these skills in the future.

IR 1.3.1: Improved policy and legal environment. To achieve SO 1.3, the policy and legal environment must encourage formation of private SMEs by creating an enabling environment. This requires a legal environment which: minimizes bureaucratic or tax policies that inhibit entrance into the marketplace, creates a level playing field by discouraging anti-competitive practices, protects investors through limited liability procedures, and protects creditors through effective and efficient reorganization and liquidation procedures.

A basic legal framework has been in place since independence in 1993 and much of that dates to initial laws passed by the Federation in 1990 and 1991. Although modifications in several specific laws would improve the business environment and the commercial code would benefit by being updated, changes in the bankruptcy law and collateral law are the two needed most urgently. The current bankruptcy system is not working. It was made worse by a 1993 amendment that imposed a mandatory "reconciliation" period that severely restricts creditors' ability to proceed with liquidation. Cases take from one to two years to pass through the courts. It is not known whether any bankruptcy case has actually gone all the way to conclusion. This law is a serious impediment to enterprise restructuring and encourages the waste of productive economic assets by favoring liquidation over restructuring. The bankruptcy law needs to be amended at least to eliminate the reconciliation provision. It should be further amended and ultimately changed to provide Chapter 11-type relief to debtors and to include other features of US and EU bankruptcy laws. USAID is supporting assistance through ABA/CEELI and Carana Corporation to assist in modifying the law and training judges and others in implementation skills.

Under the previous regime, access to information was under the strict control of authorities and given out to serve political ends. The Access to Environmental Information Act will improve the overall policy environment by requiring disclosure to the public of government-gathered information, thus offering a level playing field for all companies. USAID hopes this will serve as a model for similar "freedom of information" legislation on the part of other ministries.

Prior to 1989, in food production and distribution the public sector assumed the input provision, production, processing, transporting and retail sale of the final product to the consumer. After 1989, as

certain portions of the agricultural sector began to privatize, private investment was most apparent in the areas of processing, transport and input provision. The extent of privatization of the production units (the collectives and state farms) was a paper process which changed the type of enterprise, but for all practical purposes, the management remained the same and the newly named "cooperatives" continued to rely heavily on subsidies. The agricultural sector based on crop and animal production cycles soon found itself in a form of financial gridlock due to lack of prompt payment. SO 1.3 supports the improvement of the policy, legal and regulatory environment to reduce the average payment period by 50 percent. The agriculture sector of Slovakia suffers from producing the same products all of their land-locked neighbors produce. SO 1.3 supports Slovakia in their desire to strengthen the sector in particular and the economy as a whole. The primary means of achieving this is to increase the quality and availability of fresh fruits and vegetables by enabling legislation to promote market orders and uniform grades and standards.

IR 1.3.2: *Targeted private business performance strengthened.* The SO is focussed on increasing the role of SMEs as means of diversifying the basis of economic growth. While much of Slovakia's current GDP growth derives from large, state-owned basic industries, these enterprises are limited in their potential to sustain that growth as they approach full capacity and begin to experience resource or market constraints.

Strengthening the business performance of SMEs will provide them with the means to develop competitive advantage and thus help to broaden the base of growth. Business performance in SMEs is generally lacking in four areas: marketing, operations, administration and finance. In a global economy, businesses with weakness in any of these areas are impaired and vulnerable, and will lose value. At its heart, enterprise restructuring assistance is about building, or at least retaining, value. Meanwhile, there are a number of medium-sized firms that collectively are potentially important contributors to the economy, but which cannot survive without financial and operational restructuring.

Diversification is therefore important for economic stability, as well as new product innovation and growth. A core of smaller industrial firms that can survive in the next century will provide badly needed economic diversification as well as vitality through innovation and growth. Candidates for such a core group of companies exist and most have good, marketable products. However, their management often lacks sufficient training and experience in the skills required to survive in international markets. As a consequence, many of these potentially viable firms are failing and thereby imposing substantial costs on their communities in terms of lost jobs and wasted assets. There are four major transactions cycles which must be strengthened to ensure the viability and growth of SMEs.

IR 1.3.2.1: *Marketing: Increased access and ability to respond to market information.* Skills in market research, advertising and sales techniques require a customer focus that is often missing in companies that were founded and developed in command economies. Most Slovak SMEs operate without adequate knowledge of their markets. They don't know how to get market information or how to respond to it. This forces them into to a position of responding to competitors rather than markets, placing them at a competitive disadvantage.

Slovak SMEs are being provided with market information through benchmarking and customer surveys, part of a package of analytical services provided at the USAID-funded Slovak Banking and Business Advisory Center (SBBAC). Benchmarking is essentially a technique with which to compare elements of performance with other industry competitors. Customer surveys are one means to provide the firm with direct feedback on performance areas.

Through the activities included in SO 1.3, advances will be made which will result in increases in productivity, economic efficiency (cost per unit) and profitability in the agricultural sector. Currently, information about the agricultural sector is not readily available for planning purposes for the producers or for the processors, distributors and retail units.

IR 1.3.2.2: *Operations: Increased applications of effective operations and control techniques.* Efficient operations and quality controls, which provide a quality product at lower prices, must be achieved in order for companies to survive in a highly competitive environment. Productivity is critical to competitive performance and an area where Slovak SMEs are often weak. Assistance is provided to Slovak firms in operations improvement in a number of areas (inventory controls, process flow, purchasing management, etc.). This assistance is available through "hands-on" advisory assistance as well as through management training.

IR 1.3.2.3: *Administration: Application of effective management systems and techniques.* Management systems must identify matters requiring attention and provide corrective action and timely reporting. Slovak SMEs often lack fundamental management/administrative skills. In many cases, there is little communication between functions or departments and the absence of shared objectives and visions. Reporting lines are often illogical. Rarely is performance measured or rewarded on the basis of performance. The lack of management skills ensures sub-optimal performance. This deficiency is being remedied through the SBBAC through a combination of direct assistance and training.

IR 1.3.2.4: *Finance: Application of effective and up-to-date financial control systems.* Sustainable business requires the ability to forecast business performance, the provision of financial resources as needed and the implementation of accounting and reporting systems that safeguard assets and provide reliable financial reporting. Under the command economy, quotas were the order of the day, not cost. As such, Slovak SMEs generally lack effective managerial finance systems, particularly in the area of managerial or cost accounting. Without the ability to measure cost, the firm is incapable of making informed financial decisions, again finding itself at a competitive disadvantage.

Assistance is being provided through the SBBAC in the area of managerial accounting by providing training to Slovak accountants on how to implement managerial accounting systems. Similar assistance is available through the Slovak Enterprise Restructuring Center (SERC). As a fundamental part of its assistance approach, the SERC first helps the enterprise to perform extensive financial analysis as a way of framing the firm's past performance and future potential. This analysis provides the foundation on which a restructuring plan can be built and performance improvement can be realized.

IR 1.3.2.5: *Housing sector business associations strengthened.* There are a number of key actors that are essential to making a private housing market function. They include building contractors, housing developers, real estate brokers, real estate appraisers and lenders providing home construction and purchase financing. Forming these groups into professional associations is a very effective way of improving the standards and professionalism of their members and for providing training in the various market-oriented facets of their activity that were not relevant in the socialist state. Working with all the key actors is considered essential for creating the market that will in turn benefit all the actors and strengthen the performance of this sector.

IR 1.3.3: *Sources of business training and assistance strengthened.* In order for the SO to be sustained, it is essential that Slovakia develop the indigenous capacity to train future generations of managers and that it have specialists who can carry on the kind of enterprise turnaround and strategic planning that is currently provided by outside advisors. Toward this end, USAID is assisting the largest business and economics university in Slovakia to enhance its faculty's skills and has begun the first stage in establishing both an executive MBA and a full-time MBA program.

In addition, as it advises companies, the USAID-funded Slovak Banking and Business Advisory Center provides on-the-job training and experience to Slovak counterparts who will be eligible to purchase and manage this business advisory entity after the expatriate experts leave.

The Entrepreneurial Management and Executive Development Training Program (EMED) is designed to provide training opportunities to new entrepreneurs and managers of small and medium sized firms to support the growth of the private sector in Slovakia. Since 1993 USAID Slovakia has trained about 180 Slovak entrepreneurs and managers who have been able to improve their managerial and marketing skills. By providing training opportunities for these entrepreneurs, we have strengthened the capacity of small and medium enterprises in Slovakia and given private owners/managers exposure to American approaches to business.

PART II: PERFORMANCE ASSESSMENT

Table I - Performance Data
Baseline, Targets, and Actual Results

SO 1.3: Accelerated Development and Growth of Private Enterprises (SME)

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Accelerated Development and Growth of Private Enterprises (SME)	Number of medium-sized private industrial companies	Definition: Total private companies Unit: 100-1,000 employees	1995	1,000	1,100		1,300		1,500		1,700		2,000	
		Employment in medium-sized private industrial companies	Definition: Unit: Number of employees	1990	minimal		330,000	390,000		450,000		510,000		600,000	
IR 1.3.1	Improved policy and legal environment	Bankruptcy Law	Definition: Latest change Unit:	1993	law amended			law amended				law replaced			
		Court time to process bankruptcy case	Definition: Average months Unit:	1996	24			18							
		Environmental Information Act	Definition: Latest change Unit:	1995	none			law passed							

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1996		1997		1998		1999		2000		
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
		Reduce average payment period by 50 percent	Definition: Unit: Average days of delinquent payment	1995	94 days	Suggest prompt payment guidelines		law enacted		enforce prompt payment						
		Increased exports of processed meat products by USDA certification	Definition: Unit: SK	1996	0	USDA-FSIS application		one company approved		3 companies approved						
		Increased quality and availability of fresh fruits and vegetables	Definition: Unit: Legislation passed	1996	0	F&V assessment		legislation in place		2 orders formed						
		Information requests met	Definition: Unit: Number per year	1996	none					50		100				
		Commercial mediation system in place and utilized for dispute resolution	Definition: mediators trained, cases resolved Unit: Number	1995	none	20 mediators trained		12 cases resolved								
IR 1.3.2	Targeted private business performance strengthened	Increase in profitability (absolute)	Definition: Percent increase in net income annually (pre tax) Unit: percent increase over previous year	1995	TBD	5%		5%		5%		5%		5%		
		Increase in profitability (SBBAC clients)	Definition: EBITDA/sales Unit: Annual rate of increase in percent	1995	TBD	5%		7%		5%		3%		2%		

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RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Sales per worker (VOCA)	Definition: Unit: Index	1996	100		100	107		112		116		118	
		Percent of IESC client companies reporting increase in sales	Definition: Sk Unit: Annual rate of increase	1996	20%	20%		20%		17%		14%		10%	
		Percent of IESC client companies reporting a decrease in unit cost of sales	Definition: Unit: Percent	1996	20%	20%		20%		17%		14%		10%	
IR 1.3.2.1	Marketing: Increased access and ability to respond to market information	Percentage increase in sales	Definition: Annual increase in targeted enterprises Unit: Percent	1995	TBD	5%		5%		5%		5%		5%	
IR 1.3.2.2	Operations: Increased applications of effective operation techniques, control techniques	Decrease in total labor cost as percentage of revenues	Definition: Annual decrease Unit: Percent	1995	TBD	5%		5%		5%		5%		5%	
IR 1.3.2.3	Administration: Application of effective management systems & techniques	Cost per unit of sales	Definition: Annual rate of decrease Unit: Percent	1995	TBD	5%		7%		5%		3%		2%	
IR 1.3.2.4	Finance: Application of effective and up-to-date financial control systems	Inventory turnover	Definition: Cost of goods sold/inventory annual increase Unit: Percent	1995	TBD	10%		10%		7%		5%		5%	

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Interest-coverage ratio EBITDA/interest	Definition: Operating cash flow / interest expense Unit: Percent increase	1996	50%	10%		10%		7%		5%		5%	
		Accounts/receivables turnover	Definition: sales/accounts receivable Unit: days ratio	1995	124 days ratio	110		100		90		90		90	
IR 1.3.2.5	Housing sector business associations strengthened	Membership	Definition: Cumulative increase in membership Unit: Percent	1995	(300)		(300)	15%		30%		40%		45%	
		Self-supporting income / expenditure ratio	Definition: Unit: Percent	1996	30%		30%	50%		100%		100%		100%	
IR 1.3.3	Sources of business training and assistance strengthened	Enhanced Economics University capacity to train students	Definition: Students taught by enhanced faculty Unit: Number	1995	0	750		1,500		3,000		5,000		9,000	
		Postdoctoral trained faculty (cumulative)	Definition: Completed postdoctoral study Unit: Number	1995	0	8		20		43		60			
		Participants trained in sectoral areas which support the strategic objective	Definition: Participants trained Unit: Number	1995	60	60	80	60		60					

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Number of small businesses implementing skills and techniques acquired through EBDP-supported activities	Definition: Unit: Number of firms (cumulative)	1995	60	120		180		180		180		180	
		Number of firms SBBAC able to serve	Definition: Unit: Number per year	1995	0		40	60		75		80		85	
		Capacity of SMTC to train students	Definition: Students taught by Slovak faculty Unit:	1995	0	60		600		700		800		900	

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PART II

STRATEGIC OBJECTIVE

RESULTS REVIEW

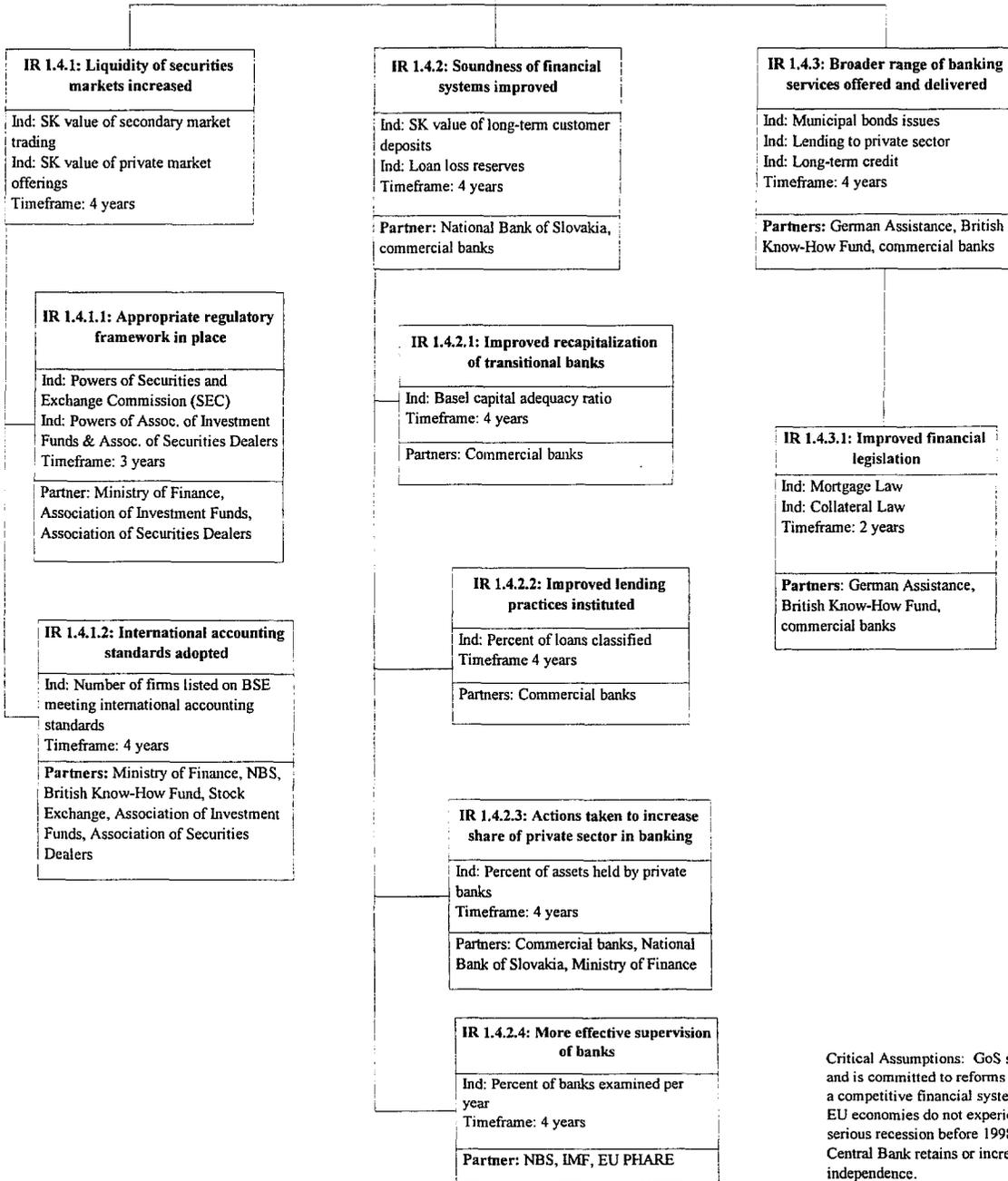
SO 1.4

A MORE COMPETITIVE AND MARKET-RESPONSIVE PRIVATE FINANCIAL SECTOR

SO 1.4: A More Competitive and Market-Responsive Private Financial Sector

Ind: Country Rating
Ind: Foreign Capital Inflow
Timeframe: 4 years

Partners: National Bank of Slovakia, Ministry of Finance, British Know-How Fund, EU PHARE, German KOST, commercial banks, Association of Investment Funds, Association of Securities Dealers



Critical Assumptions: GoS supports and is committed to reforms that foster a competitive financial system. EU economies do not experience serious recession before 1998. Central Bank retains or increases its independence.

Part II: Results Framework Narrative

SO 1.4: A Competitive and Market-Responsive Private Financial Sector

A. Transition Hypothesis:

Financial sector reform is at the heart of economic transition. The mobilization of savings or capital and its allocation to the most productive use is one of the most critical prerequisites to sustained economic growth. Capital is fuel for any economy.

One of the defining differences between planned and market economies is how capital is allocated. A competitive, market-driven financial sector with market-determined rates of return provides incentives for society to forego some consumption in order to save. Moreover, the intermediaries will seek to allocate capital efficiently in order to seek the highest rates of return while not incurring losses for fear of losing customers. Under socialism these decisions were largely determined by command and control mechanisms within the framework of a central plan. The result was often a huge waste of the nation's scarce capital resources.

Economic transition required the command and control framework be replaced. This necessitated (a) creating new institutions, (b) widespread acquisition of new skills and attitudes and (c) adopting new laws, regulations and incentive schemes. Since 1990, Slovakia has made great advances in each of these areas and the monetary authorities have been particularly effective in achieving a relatively low and falling inflation rate. This has helped to maintain a stable exchange rate (cf. performance data table narrative).

There are, however, some key reforms which still need to be completed. The flow of credit to new and restructuring enterprises continues to be impeded due to both lack of indigenous skills and political factors. At the same time, capital markets are still in the earliest stages of development. Capital markets development is equally as important as the development of the banking sector and should not be viewed as an appendage or secondary to banking sector development. Capital markets broaden the sourcing base for companies as they seek expansion capital which is ultimately why capital markets exist. Moreover, they provide healthy competition to the banking sector, further stimulating sector development. Economic evolution in western markets clearly shows the banking sector is becoming submerged within capital markets and is forcing a redefinition of what is "banking" in both the corporate and retail markets.

In its June 1994 Assistance Strategy Update, USAID/Slovakia cited banks' bad loan portfolio as the single most important impediment to the smooth functioning of the financial system and in turn to enterprise and private sector restructuring. There is a direct link between SO 1.4 and SO 1.3. This is USAID/Slovakia's transition hypothesis and OAR continues to center its strategy in SO 1.3 and SO 1.4 on efforts to resolve this problem. In August 1994 the interim government was prepared to launch a multifaceted frontal assault on the bad loan problem. However, a new government was elected September 30, 1994, and while recognizing the severity of the problem, has chosen an alternative approach about which outsiders are not well informed. However, it does appear that troubled banks will be recapitalized over the next two to three years. While the United States Government will probably not be given the opportunity to influence at the policy level the course of bank recapitalization and financial restructuring, it will be able to contribute in critical ways at the implementation level within the banks and central bank. USAID also funds a well-respected capital markets advisor at the Ministry of Finance whose ideas have and will continue to shape capital markets policy.

B. CRITICAL ASSUMPTIONS:

1. *Government of Slovakia supports and is committed to reforms that foster a competitive financial system.* Although Slovakia has pursued a conservative monetary policy and continued with financial sector reforms under each of its governments, there are signs that the present government is not fully committed to the market allocation of capital. For example, recent reforms in securities legislation, while containing

important provisions in common with Western standards, were used to impede the role of the investment funds that had emerged under the first wave of voucher privatization. As this document is being written, the government is preparing to privatize the three largest banks and the state insurance company. Although outsiders have been encouraging bank privatization since the earliest days of the transition, the form that it is likely to take at this time may be less than competitive, giving major control of those banks to a few large industrial companies who are in turn major debtors of the banks and/or potential parties which form the current coalition government. If the banks resist the financial incentives that privatization is supposed to instill in them, such a move could reduce the effectiveness of the banking system and diminish the impact of USAID's activities under this SO.

2. *EU economies do not experience serious recession before 1998.* Many of the important banks are in serious financial difficulty. Steps are being taken by the banks, government and monetary authorities that should eventually mitigate the problem. However, a serious EU recession would significantly reduce imports from Slovakia. Domestic enterprises already heavily indebted to Slovak banks would find it difficult to achieve their restructuring plans. This would undercut banks' ability to restructure their bad debt portfolio and move them back toward insolvency. It would delay achievement of several of the targets set out under this SO. Stagnation or only mild recession in the EU might not pose such a serious threat.

3. *The Central Bank (National Bank of Slovakia) retains, or increases its independence.* The kinds of rules and regulations required to achieve this strategic objective and in particular the soundness of the banking system may prove to be politically unpopular. If the National Bank of Slovakia (NBS) is drawn into the political arena it can no longer be assured that sound financial practice will govern policies.

C. Causal Linkages:

A country rating is one of the most useful and impartial performance indicators of the successful development of a country. It is an assessment of the current economic conditions of a country and a prognostication of its future stability. It is essentially answering the question of whether it makes sense to loan long-term funds to a country. If a country is developing properly, it should discover itself being rated and then steadily upgraded over time as improvements are judged to be more permanent. Standard & Poor's (S&P) first rated Slovakia in March 1994. They assigned it a rating of BB-, which was very respectable considering that a year earlier many were forecasting economic regression similar to that in the Ukraine. S&P has steadily upgraded Slovakia and currently rates the country as BBB-. The short-term performance of Slovakia has been impressive though there is uncertainty about its sustainability. Yet, if the country continues its excellent economic performance and maintains low debt per capita, it is reasonable to expect the country to be rated A+ by the year 2000.

Foreign capital inflow (FCI) is another extremely useful indicator of the economic progress of a country. Simply, if a country appears too risky, it will not receive much money. Foreign capital inflow consists of three major parts: portfolio debt investments (purchase of government and corporate bonds), portfolio equity investments, and direct investments (corporate strategic investments). Overall growth in FCI reflects a general belief in the opportunities of the country. A sharp increase in direct investment is a strong belief that the economy will grow rapidly and the country respects the ownership rights of foreign investors. The rate of foreign investment in Slovakia has been fairly low both in aggregate and per capita terms. However, it is reasonable to expect that foreign investment will grow at 30 percent per annum due to the positive economic development of the country and the low base Slovakia is starting from (\$732.9 million of foreign direct investment at the end of 1995).

USAID/Slovakia has identified three primary intermediate results which, if achieved, should symbolize Slovakia's transition to a more competitive market-based private financial sector. In order to help Slovakia achieve these intermediate results, USAID will fund work simultaneously with capital markets, commercial banks, and legal and regulatory authorities.

IR 1.4.1: *Liquidity of securities markets increased.* A liquid securities market is both a result and a measurement of the positive development of a country's financial sector. It is a relatively unbiased grading system. If there is increasing liquidity, that is an indication the country is progressing economically. It says

that buyers (investors) have increasing confidence in the long-term stability and growth of the country while sellers (issuers) believe they can obtain needed expansion capital. Markets that are open to foreigners broaden the sources of funding for the GoS and reduce the "crowding out" effect of government securities. At the same time, a market that does not experience greater liquidity is a negative indicator of the GoS's economic policies. It inhibits the development of small and medium-size enterprises because potential venture capital investors have only one exit (trade sale). Moreover, entities either must make direct purchases (strategic investments) or direct loans (bank loans). These may be inappropriate for many investors who would prefer a range of opportunities (both companies and instrument-types).

IR 1.4.1.1: *Appropriate regulatory framework in place.* Fundamentally, Slovakia must create its own capital markets. It cannot be done for them. Potential participants need to learn how to aggressively package and sell securities while time is needed to attract people with money to invest. However, USAID/Slovakia can help ensure a proper regulatory framework exists that can accommodate what will probably be rapid growth. There are three fundamental reasons for focusing on regulatory work: (a) a proper regulatory framework insures a level of fairness for all participants and makes the markets more attractive to domestic and foreign investors, (b) it reduces the frequency of fraudulent activity which damages investor confidence and ultimately the ability of companies to obtain capital and (c) it is relatively unattached from the trading conditions of the market and can be improved through "good" or "bad" markets.

The Slovak government recognizes this and has developed a strategic plan for the evolution of an independent SEC. This was developed in close cooperation with USAID. While the pace of evolution may be slower than desired, the government recognizes the need for a SEC in contrast to other post-communist and EU countries.

The development of self-regulating organizations (SROs) is interconnected with evolution of the SEC. The SRO is an important element of the regulatory framework, which has been time-tested in Anglo-American markets. It provides for closer, more efficient, and flexible supervision of markets compared to having only a government regulator. It will be difficult for the SEC to obtain all the resources they need from the central budget and attract the needed talent. Yet having a self-funded SEC (fines) introduces potentially negative distortions to the market.

IR 1.4.1.2: *International accounting standards adopted.* The increased usage of international accounting standards (IAS) is an intermediate result that cannot be overemphasized for the development of the markets. IAS facilitates the standardization of contracts (bonds and equities) and allows comparability of products (companies). Additionally, better quality information increases investor confidence and allows them to make more confident decisions about the risk/reward of investment products. All of this enhances the liquidity of a securities market and improves the capital-raising capabilities of companies.

IR 1.4.2: *Soundness of financial system improved.* This intermediate result focuses on the banking system. The system is hampered by the heavy load of nonperforming assets, insufficient loan provisioning, and insufficient medium and long-term lending. As already noted, a key to achieving SO 1.4 is to not only find solutions for the symptoms, but also to inculcate the necessary skills for making better credit decisions and to communicate effectively the reasons why credit cannot be made purely upon the basis of relationships. If this result is accomplished, it means that more sound financial criteria are being used in the credit decision-making process. Additionally, banks are learning how to price risk appropriate so all enterprises have "access" to credit needed for expansion.

We have identified four subsidiary intermediate results necessary to achieve IR 1.4.2.

IR 1.4.2.1: *Increased recapitalization of transitional banks.* In 1995, the National Bank of Slovakia issued a policy statement whereby Slovak banks will need to be in compliance with international standards of capital adequacy by 1998. Several of the newer banks already meet those standards. Unfortunately, the three largest banks, which are still state-controlled, are burdened by bad loans largely made before or during the first years of the transition. Reducing this bad loan burden in the system is critical to the future soundness of the banking system. The banks need stronger balance sheets or they need to charge high rates of interest in order to get more cash. This would lead to a "credit crunch" which would squeeze economic growth. It may also lead to an adverse selection process where credit-worthy enterprises utilize foreign banks and thus leave suspect companies as the customers of the large domestic banks.

IR 1.4.2.2: *Improved lending practices instituted.* Repetition of the lending errors of the past can be prevented only by better practices within the banks themselves. As described earlier, poor lending practices result in bad balance sheets, which result in a crippled financial system. A large element of improving the lending environment is skills transfer. Another element is adopting the concept that lending must be conducted on commercial terms.

IR 1.4.2.3: *Actions taken to increase the share of private sector in banking.* Although all the major components of the financial reform are in place, the reform process is not complete. What still remains is the ownership status of the banking sector. It is particularly acute in Slovakia where the state controls the three largest banks. Local history and history from other developing markets clearly demonstrate that financial sector development is impeded by state control over the banking sector. The basic function of the banks becomes distorted by political or nepotism factors. It is vital that a larger component of the banking sector is managed by private hands either through ownership transfers or the sheer force of competition.

IR 1.4.2.4: *More effective supervision of banks.* The National Bank of Slovakia has issued policy guidance that would bring commercial banks to international standards in a few years. This is a step forward, yet policy also needs supporting action. The real role of bank supervision is to minimize the frequency and contain the isolated cases of fraudulent behavior among the various agents. Mature markets may be able to survive a real estate lending crises or the rogue trader, however banking crises can set back development for years in a developing market. Slovakia is not a developed market and a severe banking crisis could snap the commendable economic performance it has been registering so far.

IR 1.4.3: *Broader range of banking services offered and delivered.* Commercial banks have been very limited in their lending practices, seemingly preferring to emphasize high-return, short-term lending and letters of credit on one hand or offering longer-term credit to well-known established clients such as large state-owned enterprises. Again, this is due largely to the banks needing cash profits to replenish their balance sheets and non-banking influences upon the credit decision-making process. This, combined with tight overall monetary policy has seriously limited term credit to small and medium enterprises.

Redressing this problem is an important part of stimulating the growth of the private sector and in enterprise restructuring. Although there are some government-guaranteed and donor supported lending programs for SMEs, these are inadequate to meet the demands of a growing economy. Moreover, a healthy economy that supports sustained growth relies on the domestic sources of capital and uses foreign sources to boost growth.

An important subcomponent of a broader range of banking sources is municipal finance. Communities are a basic ingredient of an individual's life. People know when the roads are repaired and schools have books. People often judge current economic conditions according to the services provided by their community. Yet, communities are always under tremendous financial strain. In Slovakia, municipalities need a source of longer-term funds to invest in capital projects essential to their growth and development. Under socialism, municipal capital investments were funded by the central government. Since the velvet revolution, three banks (First Communal Bank, Polnobanka, and Istrobanka) have become active in providing loans to municipalities. However, it is clear the standards and practices employed by both lenders and borrowers are not those characteristic of private banks in market economies, or of prudent borrowers concerned with their ability to service debt. This may benefit some people, but over the intermediate term it will handicap everyone since it wastes precious and scarce financial capital.

IR 1.4.3.1: *Improved Financial Legislation.* It is evident that a market lacking any contractual terms and conditions for a financial product will result in no product being offered. Residential mortgage loans, which are secured by the residential real estate being purchased with the loan proceeds, as a practical matter do not exist in Slovakia. Although a significant amount of work has been completed GoS is still reluctant to introduce the needed legislation that would enable the lender to sell the property pledged as collateral when the loan is in default without providing replacement housing. This is due to the desire not to leave people homeless. However, the result is that there is little or no private funding of long-term loans to support private housing construction.

Collateral law, a legal framework for establishing and protecting secured interests in property other than real estate, exists at only a rudimentary level in Slovakia. The present system does not allow the borrower to make use of the collateral during the loan period, which eliminates using inventory or most

equipment as collateral for loans. A collateral law would have three immediate impacts: (a) new or temporarily insolvent enterprises would have access to credit because they could pledge assets, (b) interest rates would be relatively lower since potential losses would be reduced, and (c) consumer credit would increase since people could obtain expensive items with installment payments and thus boost the economy.

PART II: PERFORMANCE ASSESSMENT

Table I - Performance Data
Baseline, Targets, and Actual Results

SO 1.4: A More Competitive and Market-Responsive Private Financial Sector

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.4	A More Competitive, Market-Responsive Private Financial Sector	Country rating	Definition: S&P rating Unit:	1995	BBB-		BBB-	BBB		BBB+		A		A+	
		Foreign capital inflow	Definition: Million dollars annually Unit:	1992	70		175	200		250		300		350	
IR 1.4.1	Liquidity of securities markets increased	SK value of secondary market trading	Definition: Bonds and equities Unit: Billion SK	1994	0.2		40	50		62		80		100	
		SK value of primary market offerings	Definition: Bonds and equities, excluding Government Unit: Billion SK	1995	1.5		1.8	2.2		2.6		3.1		3.7	
IR 1.4.1.1	Appropriate regulatory framework in place	Powers of Securities and Exchange Commission (SEC)	Definition: A) Disciplinary authority by Ministry of Finance Unit:	1995	none	partial		granted							

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RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1996		1997		1998		1999		2000		
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
			Definition: B) SEC licensing authority Unit:	1995	none					granted						
			Definition: C) SEC can register securities Unit:	1995	none					granted						
			Definition: D) SEC status Unit:	1995	subordinate to Ministry of Finance							independent				
		Powers of Association of Investment Funds and Association of Securities Dealers	Definition: A) Limited Investigative powers from SEC Unit:	1995	none	informal		granted								
			Definition: B) Authority to conduct statutory audits of participants Unit:	1995	none			experiment		granted						
			Definition: C) Licensing of independent brokers and investment managers Unit:	1995	none					can administer exams		achieved				
IR 1.4.1.2	International accounting standards adopted	Number of firms listed on BSE meeting International accounting standards	Definition: Unit: Number	1995	8		10	14		18		23		28		

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 1.4.2	Soundness of financial systems improved	SK value of long-term customer deposits	Definition: Medium and long-term Unit: Billion SK	1995	9.6	11		15		20		30		40	
		Loan loss reserves	Definition: Unit: Percent of loans	1995	16.25%	14%		10%		8%		5%		5%	
IR 1.4.2.1	Improved recapitalization of transitional banks	Basel capital adequacy ratio	Definition: 8% capital Unit: Percent of banks meeting	1995	6.5%	7.5%		8%		8%		8.5%		9%	
IR 1.4.2.2	Improved lending practices instituted	Percent of loans classified	Definition: Rated by accepted standards as nonperforming Unit: Percent	1995	40%		40%	35%		25%		25%		25%	
IR 1.4.2.3	Actions taken to increase share of private sector in banking	Percent of assets held by private banks	Definition: Banks with 67% privately held shares Unit: Percent	1995	30.35%	32%		35%		50%		60%		70%	
IR 1.4.2.4	More effective supervision of banks	Percent of banks examined on site per year	Definition: Unit: Percent	1993	0		20%			60%		60%		75%	
IR 1.4.3	Broader range of banking services offered and delivered	Municipal bond issues	Definition: Unit: Number per year	1993	1		9	12		12		15		18	
		Lending to private sector	Definition: Unit: Billion SK	1995	165	170		180		205		235		270	

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Long-term credit	Definition: Medium and long-term Unit: Billion SK	1995	125	150		200		220		240		265	
IR 1.4.3.1	Improved financial legislation	Mortgage Law	Definition: Unit:							law passed					
		Collateral Law	Definition: Unit:					law passed							

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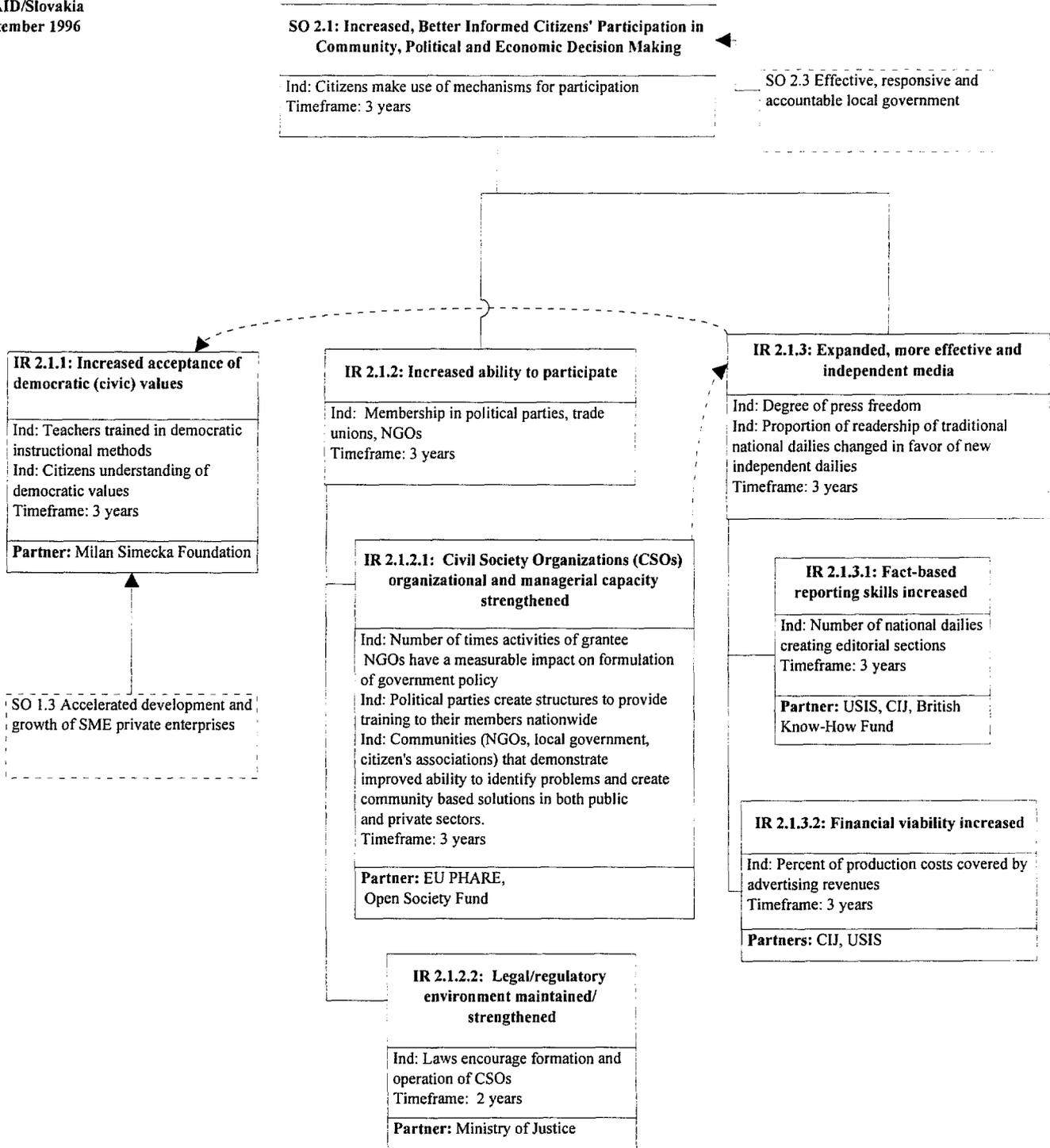
PART II

STRATEGIC OBJECTIVE

RESULTS REVIEW

SO 2.1

INCREASED, BETTER INFORMED
CITIZENS' PARTICIPATION
IN COMMUNITY, POLITICAL
AND ECONOMIC
DECISION MAKING



Critical Assumption: Constitution and constitutional rights of citizens upheld and respected.

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Part II: Results Framework Narrative

S.O. 2.1: Increased, Better Informed Citizens' Participation in Community Political and Economic Decision Making

The wording for this Strategic Objective has been expanded to include "community" in addition to political and economic decision-making. This expansion was done to encompass the grassroots focus of USAID assistance in Slovakia and reflect our broader emphasis on increasing citizen involvement in decisions which affect all aspects of their lives, including health, social welfare, and environment in addition to political and economic.

A. Transition Hypothesis:

Slovakia has made significant progress in laying the political and legal foundations on which a democracy rests. Most of the political institutions needed by independent Slovakia, including its own government and parliament and a post-communist Constitution, were already present when the nation came into existence on January 1, 1993. The remaining infrastructure was adopted shortly thereafter including the office of the President, the Supreme Court, and the Constitutional Court. Multiparty elections were held in 1990, and since then Slovakia has held "free and fair" elections in 1992 and 1994. After forty years of communism which "definitely and strongly suppressed the free association of people, networks of a civil society independent of state control" and "the ethos of co-participation, co-responsibility, altruism, and, in their place, allowed (encouraged) the spread of apathy"¹ Slovak citizens must still overcome the legacy of centralized decision-making and the apathy and sense of learned helplessness.

The challenge now is to consolidate and maintain the gains already made, to further the decentralization of authority, and to promote the development of a vibrant civil society. In order to meet this challenge, the apathy and learned helplessness, encouraged by the communist regime, need to be replaced by the values and practices upon which a participatory democracy depends. USAID assistance to Slovakia will continue to emphasize work at the grassroots level to deepen the general understanding and appreciation of democracy, to foster pluralism and respect for diversity, and to promote broad-based participation in community problem solving and decision-making. Only when Slovakia secures the tradition of participatory democracy so that citizens will be able to act to protect and represent their interests and to check the actions of the state will the transformation to a healthy democracy be complete.

B. Critical Assumptions:

An assumption critical to the achievement of this objective is: *Constitution and Constitutional Rights of Citizens' Upheld and Respected*. Slovakia adopted its post-communist Constitution September 1, 1992 in preparation for its independence on January 1, 1993. The Constitution provides for a multiparty, multiethnic parliamentary democracy, including separation of powers and an independent judiciary. The Constitution also makes provisions for individual and basic human rights, such as the right to own property, and civil liberties, such as freedom of speech and press. The standards of these rights are similar to those of Western Europe. Since coming to power in November 1994, the current government has adopted several laws and employed certain methods which have been regarded as potentially unconstitutional. The Constitutional Court, which consists of ten judges appointed by the President for a seven-year term, have acted independently in carrying out their role of interpreting and upholding the Constitution, and have on several occasions overturned laws adopted by the Slovak Parliament which they found unconstitutional. This has resulted in criticism of the Court by the Government, but to date the Government has respected the decisions of the Court. While certain methods employed such as slashing appropriations for the President's office and granting the Prime Minister broader latitude in making political appointments at the expense of presidential powers, are regarded by many as bordering on the unconstitutional, the Government has not crossed the line and taken any actions which are clearly illegal, though they have taken advantage of loopholes and

¹1995 Butora, Martin. Nonprofit Sector and Volunteering in Slovakia. Zora Butorova and David P. Daniel, eds. SAIA-SCTS and FOCUS, Bratislava, Slovakia; pp.14.

inconsistencies in the still transforming post-communist legal system. Respect for and upholding of the Constitution are critical for Slovakia's continued democratic transformation, and the assumption is that Slovakia wants to continue in this transformation.

C. Causal Linkages:

In order to achieve our objective of creating a tradition of participatory democracy in Slovakia, the following three key intermediate results must first be obtained. These are (1) an increased acceptance of democratic (civic) values; (2) increased ability for citizens to participate; and (3) an expanded, more effective and independent media.

IR 2.1.1: *Increased acceptance of democratic (civic) values.* In Slovakia, a critical obstacle to increased citizens' participation is the lack of citizen interest in participation. The apathy and learned helplessness, which for many became a coping or survival strategy during the communist regime, cannot be over emphasized as a key impediment to democratic development in Slovakia. Given circumstances and human nature, however, it is unlikely that citizens' interest will be increased until they first understand and see how participation benefits them directly. At the same time they must feel that the benefits of participation are greater than the risks. Well-publicized cases such as the kidnapping of the President's son (widely believed to have been carried out by the Slovak Information Service), the beating of an opposition politician and journalist, and the widespread dismissals of public officials for political reasons, all contribute to an atmosphere of fear and intimidation, and heighten perceptions of, and actual risks, to participation. The best weapon against such repressive tactics, however, is to speak out against and draw attention to these practices. Therefore wide dissemination of information and success stories are essential to increasing citizen interest in participation. USAID assistance aims to increase citizen understanding of their rights and responsibilities in a democracy, to educate them about the benefits to be gained by participating in the process, while at the same time educating leaders about the benefits to be gained by including citizens in the decision-making process. USAID assistance also seeks to increase the number of stakeholders in the society through privatization of housing and small and medium enterprises, since citizens are more likely to become interested in participating in the process when they have a stake in its future.

IR 2.1.2: *Increased ability to participate.* Unless citizens have the tools, skills and opportunities, they will not be able to participate. Civil Society Organizations (CSO) such as non-governmental organizations, political parties, trade unions, interest groups and business associations, are the principal means by which citizens are able to participate in community, political and economic decision-making and affect policies that are made in the public realm. CSOs are an indispensable channel for the sharing of information and for the representation of citizens' interests. Their collective nature helps increase the chance that their members' interests will be factored into policy decisions. USAID assistance provides training and technical assistance to ensure that CSOs have the skilled staff and tools necessary to organize, advocate and raise revenues to strengthen CSO management and their ability to lobby for specific policies and represent the interests of their constituencies. More successful representation in turn attracts greater participation. USAID assistance also works directly with CSOs to increase their capacity in policy formulation, advocacy and service delivery. The ability to participate is also dependent on having a legal and regulatory environment which supports pluralism and the development of civil society organizations. USAID, through the International Center for Not-For-Profit Law (ICNL) is providing technical assistance to the Slovak Ministry of Justice (MoJ) which has responsibility for drafting a series of laws pertaining to the registration and regulation of NGOs. USAID is also providing assistance to the NGO sector to help them prepare to comment on the legislation and engage the Government in a dialogue to ensure that their interests are protected.

IR 2.1.3: *Expanded, More Effective and Independent Media.* In order to determine what their interests are and to participate effectively in public policy formulation and debates, citizens must have access to a wide range of information, both on policy issues and on how to participate in the decision-making process. An independent, competent and diverse media is key to providing citizens with information. The media constitutes an important check on the behavior of public institutions. The ability of the media to investigate and analyze events and problems is critical to both the quantity and quality of information to which citizens have access. USAID assistance to the independent media in Slovakia seeks to improve the financial viability of independent media and to strengthen their ability, through training and technical assistance, to improve the quality of their work.

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 2.1.1	Increased Acceptance of Democratic (Civic) Values	Teachers trained in democratic instruction methods	Definition: Slovak teachers trained as trainers Teachers trained by Slovak trainers Unit: Number annually	1995	24	36		72		96		120			
						300		600		2000		4000			
		Proportion of citizens reporting an understanding of democratic principles	Definition: FOCUS Survey Unit: Percentage	1994	47%	57%		60%		70%					
IR 2.1.2	Increased ability to participate	Membership in political parties, NGOs, trade unions	Definition: Proportion of the population organized in NGOs, trade unions and political parties Unit: Percentage	1994	15 32 8					25 50 15					
IR 2.1.2.1	CSOs organizational and managerial capacity strengthened	Number of times activities of grantee NGOs have a measurable impact on formulation of government policy	Definition: Unit: Number	1995	0	10		20		50					
		Political parties create structures to provide training to their members nationwide	Definition: Unit: Party	1995	2	3		8		15		20			

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Communities that demonstrate improved ability to identify problems and create community based solutions in both public and private sectors.	Definition: Public/private partnerships established Unit: Number of communities	1995		10		18		26		34		42	
IR 2.1.2.2	Legal/regulatory environment maintained/strengthened	Laws encourage formation and operation of CSOs	Definition: - degree of severity of laws restricting CSOs (small, moderate, severe) - laws exempting NGOs from taxation - laws exempting individual and corporate giving from taxation	1995	small			drafted				enacted			
IR 2.1.3	Expanded, more effective and independent media	Proportion of readership of national dailies changed in favor of new independent dailies	Definition: Readership of traditional dailies, (Pravda, Praca) compared with Sme/Narodna obroda. and with Slovenska Republica Unit: percentage	1995		23.2	20		20		20				
						10.3	15		20		25				
						6.2	10		5		5				
IR 2.1.3		Degree of press freedom	Definition: Degree based on Freedom House rating annual survey Unit: Degree	1994	partly free						Free				

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 2.1.3.1.	Fact based reporting skills increased	National dailies creating editorial sections	Definition: Separation of news and commentaries into clearly identifiable pages/sections Unit: Number	1995	1	2		3		5					
IR 2.1.3.2	Financial viability increased	Increased proportion of production costs covered by advertising revenues	Definition: Proportion of production costs of national dailies covered by advertising revenues Unit: Percentage	1995	40	50		55		65					

PART II

STRATEGIC OBJECTIVE

RESULTS REVIEW

SO 2.3

MORE EFFECTIVE, RESPONSIVE

AND ACCOUNTABLE

LOCAL GOVERNMENT

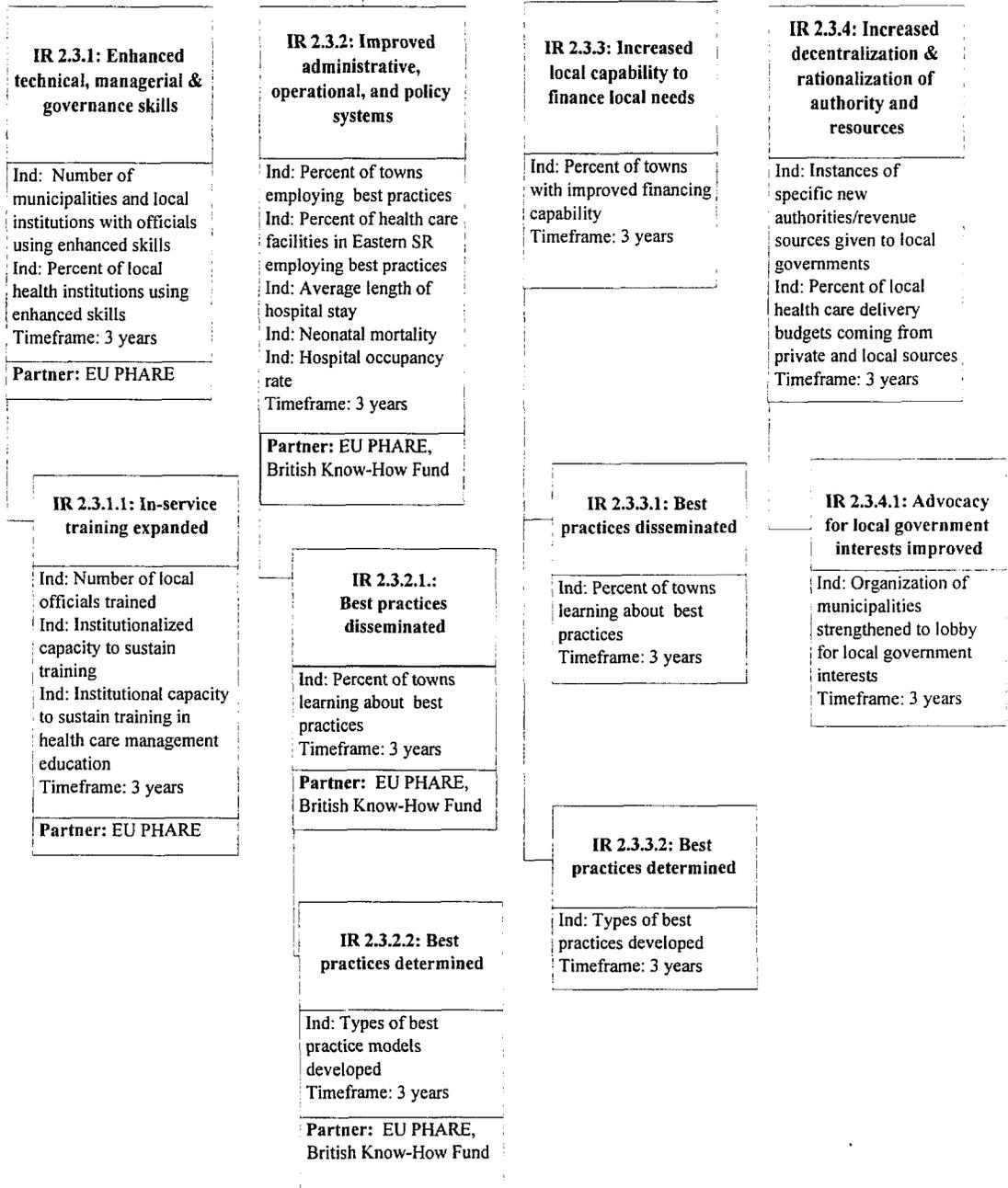
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SO 2.1: Increased, better informed citizens' participate in community political and economic decision-making

SO 2.3: More Effective, Responsive and Accountable Local Government and Local Institutions

Ind: Percent of citizens of targeted municipalities using enhanced skills and best practices who believe local governments have become more effective and responsive
Timeframe: 3 years

Partners: EU PHARE, British KHF



Critical Assumptions: Local elections continue. Authority that has been delegated to the local level will not be retracted.

Part II: Results Framework Narrative

SO 2.3: More Effective, Responsive and Accountable Local Government

A. Transition Hypothesis:

There are more than 2,800 Slovak towns and villages, each with its own democratically elected Mayor and Council members, totalling some 40,000 persons of varying political persuasions and backgrounds. The current structure of local self-government is only five years old and many municipalities are struggling to develop their capacity to govern and manage themselves. The success of these elected leaders in achieving effective, independent governance, directly and through municipal staffs, will make a major contribution to the building of strong democratic institutions and traditions in Slovakia.

However, the principles of democratic governance and a commitment to social and economic justice will never be fully implemented unless these principles penetrate to the local, grassroots levels of society. At the center of these democratic principles must be found both (1) the commitment and the capacity of local governments, the level of government closest to the people, to provide the means through which local citizens can actively participate in making decisions that affect their daily lives and (2) the interest and ability of local citizens to participate in community processes that shape those decisions.

Thus this Strategic Objective 2.3, relating to effective, responsive and accountable local government, and Strategic Objective 2.1, relating to informed citizen participation are dependent on one another.

B. Critical Assumptions:

Assumptions critical to the achievement of the objective are: *Local elections continue and Authority that has been delegated to the local level will not be retracted.*

C. Causal Linkages:

Four conditions must exist to achieve the objective of increased effective, responsive and accountable local government. The municipality must have: skilled officials, both elected and appointed (IR 2.3.1); appropriate administrative, operational and policy systems for management and governance (IR 2.3.2); enhanced capability to finance local needs (IR 2.3.3); and increased decentralization of authority and resources (IR 2.3.4).

IR 2.3.1: *Enhanced technical, managerial, and governance skills* is a key result that must be achieved to reach the strategic objective. Local governments are run by people and there must be skilled staff capable of managing municipal affairs. A wide range of skills, technical as well as interpersonal, is involved. Skill development needs to focus on elected, as well as appointed officials. USAID/Slovakia will ensure that this work is linked to that done under SO 2.3.

One focus should be on the skills of elected leaders - mayors and local council representatives - in fulfilling the responsibilities they were elected to carry out. These skills can be referred to as governance skills. Most elected officials are new to public office. The tradition of local election of officials is only five years old. Furthermore, elections in November 1994 resulted in a high turnover, so many officials have not been in office long enough to have gained the "on the job" training needed to develop skills of governance.

Effective local elected officials are required to carry out 11 different roles: policy maker, decision maker, communicator, facilitator, enabler, negotiator, financier, overseer, power broker, institution-builder, and leader. Experiential training materials for those 11 roles have been developed by UN-Habitat and are being used in many countries around the world. These materials will be adapted for use in Slovakia, local trainers will be trained, and training will be provided throughout the country. In addition to those leadership skills, political skills of elected and other community leaders are being developed in eight localities annually.

Various elected and appointed officials also need managerial and technical skills to competently carry out their responsibilities. With very few exceptions, municipal officials have not been trained in public

administration. The required skills vary according to the responsibilities of the official involved. Finance officers need specialized training in budgeting and financial management. Many municipalities have a position that is similar to that of a city manager and training in general management skills would be beneficial to them. Under Slovak law, mayors have extensive powers that require administrative skills that they have not received in their formal education.

More efficient health care management and use of health care resources is another area in which USAID/Slovakia will assist in introducing enhanced skills. Despite a well-educated medical profession, the health status of Slovaks continues to decline due to inefficient use of resources. In addition to its direct fiscal impact, poor health status among the population is a major drain on government revenues through its negative impact on worker productivity and income, as well as the added burden to other social services such as sick leave, disability and early retirement. A concerted effort has begun to utilize formal education, seminars, training materials and other techniques to disseminate widely the best practices developed in the pilot communities.

IR. 2.3.1.1: *In-service training expanded* is key sub-intermediate result that will provide the critical input to enhancing skills. There will always be a need for development of people serving in local government; in-service training should be a continual activity. Given the number of officials needing training (40,000 local elected officials alone), the turnover in officials (more than half of the current mayors were newly elected to office in November 1994), and the myriad of skills required, the assistance strategy is to develop the capacity in a local institution to continue in-service training programs without continuing USAID assistance, by developing the training materials, training local trainers to conduct the training, and developing the capacity in a local institution to carry out the training in the future with its own resources.

Training courses are being developed on the following topics: financial management (including budgeting, capital improvements programming, and debt management); public procurement; infrastructure maintenance; housing management; strategic planning, performance indicators; health management; and enterprise company transformation/privatization.

By enhancing training and management skills of health professionals, we will help improve the effectiveness of health care delivery in Slovakia. USAID/Slovakia will assist in introducing model approaches to more efficient expenditure. A concerted effort has been undertaken to utilize formal education, seminars, training materials and other techniques to disseminate widely the best practices developed in the pilot communities.

IR. 2.3.2: *Improved administrative, operational, and policy systems* is the second key result that must be achieved to reach the strategic objective. Skilled leaders need appropriate administrative, operational and policy systems through which those skills can be exercised in order for the local government structure to be effective, responsive and accountable.

Certain management systems are essential to efficiency and effectiveness. Other types of systems must be in place in order for local government to be responsive and accountable; these systems facilitate citizen participation in the formulation and discharge of public policy affecting the citizenry.

Recent decisions to decentralize health care delivery systems have burdened local health professionals with the residuals of a centralized system that does not always address basic health concerns of a community. USAID programs in the health sector will help improve health outcomes by rationalizing the health delivery system at the local level and through a general effort to improve health management capacity in the Slovak Republic. This will be achieved through three programs: hospital partnerships, health management education, and community-based health reform. Although each of these is targeted to a limited area, they will serve as demonstrations of efficiency techniques that we anticipate will be replicated. The health care system is in flux throughout the country. Even though there has not been a formal decentralization of the health delivery system, hospitals and communities find that they increasingly must take responsibility for managing health resources effectively.

IR 2.3.2.1: *Best practices disseminated* and IR 2.3.2.2: *Best practices determined* are the sub-intermediate results that will provide the critical input to improving administrative, operational, and policy systems. The approach is first to determine the "best practices" by working with a few municipalities characterized by strong local leadership and a commitment to change. USAID will help these municipal officials determine what systems will work best in the Slovak environment and then disseminate those "best

practices" through a variety of means, including written materials, training programs and conferences.

Best practices are being developed in the following areas: budgeting for management, capital improvements programming, governance/citizen responsiveness mechanisms, asset management, infrastructure maintenance, municipal oversight of water and sewer agencies.

IR 2.3.3: *Increased local capacity to finance local needs* is the third key result that must be achieved to reach the strategic objective. In order to function effectively and responsively and with accountability, municipalities need the capacity to fund local needs. Although additional revenues from the central government are needed, municipalities currently have capacity that they have not fully taken advantage of. Capacity refers to maximizing the use of the authority already given to local government by the central government to impose taxes and fees to raise revenue to finance municipal service. That authority will enable the city to obtain, through taxation or other means, the financial resources to pay the costs of municipal services. Capacity also refers to development of management systems and controls that will enable the municipality to make more cost effective use of the financial resources the municipality does have available.

IR 2.3.3.1: *Best practices disseminated* and IR 2.3.3.2: *Best practices determined* are the key sub-intermediate results contributing to increasing the local capacity to finance local needs. The approach being taken is to first develop best practice models and then disseminate them to other municipalities. Prime candidates for development of best practices are: cost recovery structures; revenue collection procedures; revaluation of real estate tax bases; asset management for increased rental income; cost containment processes; debt management; asset sales and collections.

IR 2.3.4: *Increased decentralization and rationalization of authority and resources* is the fourth key result that must be achieved to achieve the strategic objective. While municipalities have been given substantial authority, they do not control many functions which are often carried out by local government. The state has retained a significant policy and regulatory role in housing. With respect to water and sewer services, while municipalities were given the responsibility to provide the services, the state retains much of the physical system and controls the water rates. Much of the municipal revenue derives from shared national tax revenues and the revenue sharing formulas are frequently changed. In an environment of scarce resources it is inevitable that there will be a continual struggle over the division of central government revenues just as there will be a constant struggle over the division of authority between central government and local government.

The vast majority of Slovak municipalities are villages with populations too small to support the staff and facilities needed to effectively and responsively meet the needs of the citizens. Some method of formal or informal consolidation must be developed whereby services can be delivered effectively, efficiently, and responsively while still preserving the democratic integrity of self-government at the village level.

Through the Community-Based Health Reform Project, USAID/Slovakia is promoting a financially viable devolution of responsibility and authority for health services to the local level. Our assistance will include: advocacy for local reform through the Association of Towns and Municipalities (ZMOS) to develop and defend its positions and to demonstrate its successes; providing support for and replication of local initiatives through community-based partnership programs; and working to improve health care funding by supporting the creation of openly accountable and professionally managed foundations.

IR 2.3.4.1: *Advocacy for local government interests improved* is the key sub-intermediate result that will provide critical input to increasing decentralization and rationalization of authority and resources. The approach is to assist the organized municipalities to speak with as strong and united a voice as possible for the interests of local government. To achieve a united voice, efforts will be directed to providing the dominant municipal association adequate attention to the needs of all municipalities, including the larger towns. Inattention to those needs in the past has led thus to the fragmentation of local government advocacy. Assistance is being provided in the development of background research and statistical studies that will strengthen local government advocacy and by providing advice and training which will assist municipal leaders in lobbying for the interests of local government.

PART II: PERFORMANCE ASSESSMENT

Table I - Performance Data
Baseline, Targets, and Actual Results

SO 2.3: More Effective, Responsive and Accountable Local Government and Local Institutions

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 2.3	More effective, responsive, accountable local government and local institutions	Citizens of targeted municipalities using enhanced skills and best practices who believe their local government has become more effective and responsive	Definition: Survey asking the question: "Do you believe your local government is more effective and is more responsive to the needs of your community than it was in 1996?" Unit: Percent answering yes	1996	0			5%		15%		25%			
IR 2.3.1	Enhanced technical, managerial and governance skills	Municipalities and local institutions with officials using enhanced skills (see text for types of skill training)	Definition: Unit: Number of municipalities	1996	0			25		150		500			
		Local health institutions using enhanced skills	Definition: Unit: Percent of institutions	1996	0	0%		50%		100%		100%		100%	
IR 2.3.1.1	In-service training expanded	Local officials trained	Definition: Unit: Number of local officials receiving training	1996	0			1000		2000		5000			

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Institutionalized capacity to sustain training	Definition: Unit: Number of participant training days/year of sustainable training	1996	0			2600		4800		5000			
		Institutional capacity to sustain training in health care management	Definition: Number of accredited health management education programs Unit:	1996	0			2		3		3		3	
			Definition: Unit: Number of qualified graduates	1996	0	190		190		190					
IR 2.3.2	Improved administrative, operational and policy systems	Towns employing best practices	Definition: Unit: Percent of towns adopting one or more best practices	1996	0			5%		25%		50%			
		Health care facilities in Eastern Slovakia employing best practices	Definition: Unit: Percent of health care facilities	1996	0			50%		100%		100%		100%	
		Average length of hospital stay	Definition: Unit: Days	1995	12.8		11.2	11.0		10.8		10.6		10.4	

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		Neonatal mortality	Definition: Unit:	1994	11.2		11.0	10.4		10.4		10.1		10.1	
		Hospital occupancy rate	Definition: Unit: Percent	1993	73.3%		79.9%	83.2%		86.5%		89.8%		89.8%	
IR 2.3.2.1	Best practices disseminated	Towns learning about best practices	Definition: Unit: Percent of towns learning about best practices	1996	0			90%		90%		90%			
IR 2.3.2.2	Best practices determined	Best practice models developed (see text for candidate list of best practices)	Definition: Unit: Number of types of best practices developed	1996	0			4		8		12			
IR 2.3.3	Increased local capacity to finance local needs	Towns with improved financing capability	Definition: Unit: Percent of towns adopting one or more best practice	1996	0			2%		20%		50%			
IR 2.3.3.1	Best practices disseminated	Towns learning about best practices	Definition: Unit: Percent of towns learning about best practices	1996	0			90%		90%		90%			
IR 2.3.3.2	Best practices determined (see text for candidate list of types of best practices)	Types of best practices developed	Definition: Unit: Number of types of best practices developed	1996	0			0		2		4			

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 2.3.4	Increased decentralization and rationalization of authority and resources	Specific new authorities/revenue sources given to local governments	Definition: Unit: Number of new authorities/revenue sources	1996	0			1		2		4			
		Local health care delivery budgets coming from private and local sources	Definition: Percentage in pilot communities Unit:	1996	0			10		20		25		25	
IR 2.3.4.1	Advocacy for local government interests improved	Organization of municipalities strengthened to lobby for local government interests	Definition: Unit: Number of issues on which lobbying capability is strengthened	1996	0			1		4		8			

PART II

STRATEGIC OBJECTIVE

RESULTS REVIEW

SO 3.3

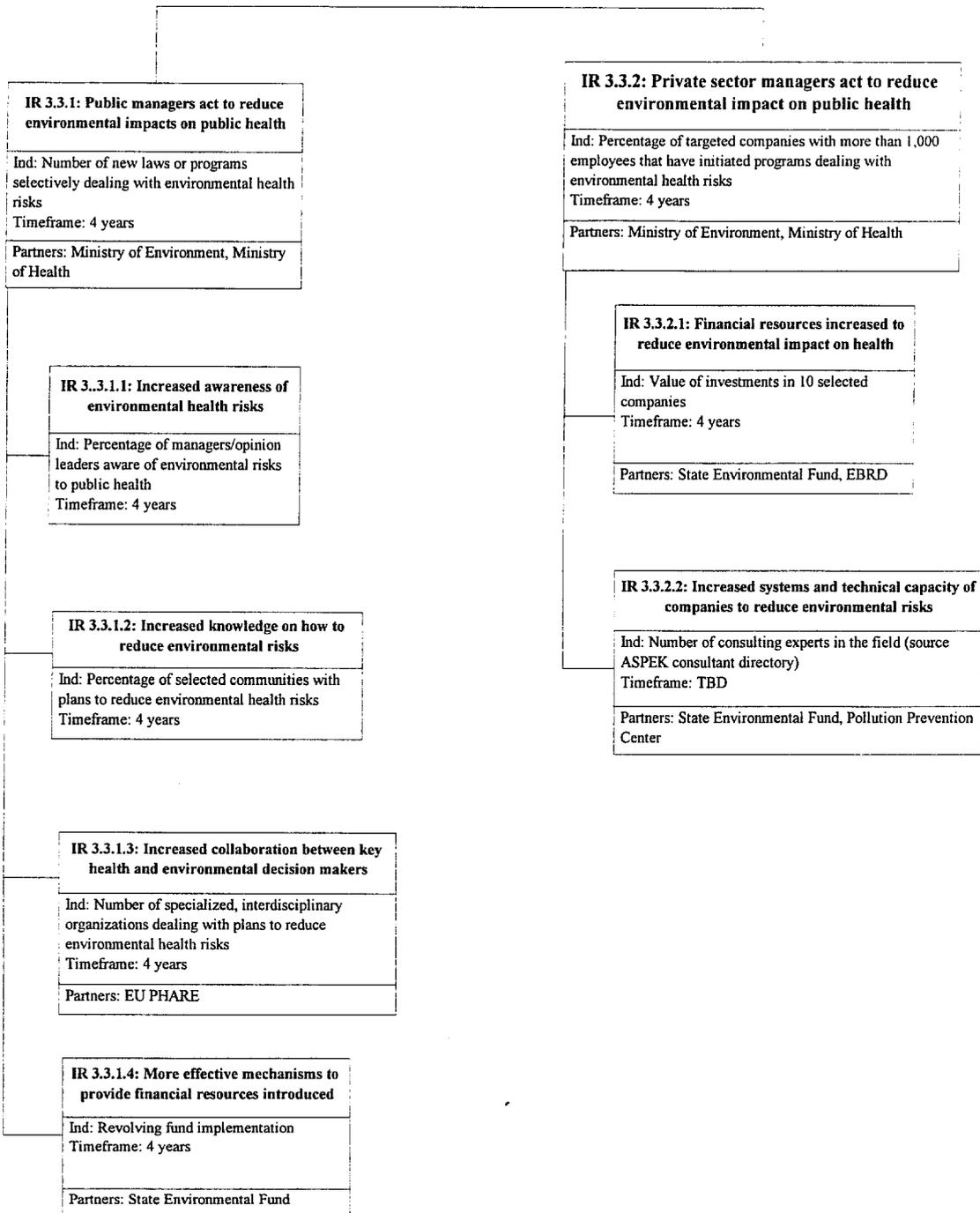
REDUCED ENVIRONMENTAL

RISKS TO PUBLIC HEALTH

SO 3.3: Reduced Environmental Risks to Public Health

Ind: Life expectancy increased
Timeframe: 2 years

Partners: Ministry of Environment, Ministry of Health



Critical Assumptions: Slovakia continues to integrate into the world, market-driven economy.
Slovakia continues to improve its environmental strategy, including key areas of increased enforcement and fee and fine collection.
The international donors and multilateral funding institutions accept as feasible the small country (i.e. small economy) projects.

Part II: Results Framework Narrative

SO 3.3: Reduced Environmental Risks To Public Health

A. Transition Hypothesis:

Under Strategic Assistance Area III: *Respond to humanitarian crises and strengthen the capacity to manage the human dimension of the transition to democracy*, USAID Slovakia has historically focused on SO 3.3: *Reduced environmental risks to public health*. SO 3.1: *Reduced human suffering and crisis impact* has been a part of the core of USAID Slovakia assistance. On one occasion we have managed the delivery of goods from the Office of Foreign Disaster Assistance (OFDA) in response to an industrial accident. Those demand-driven activities which could be incorporated under SO 3.2: *Improved sustainability of social benefits and services* have been included in other strategic objectives thereby reducing the number of strategic objectives and assuring coordination of those activities while avoiding duplication and redundancy in action, expense and effort.

The Slovak transition to democracy forced the need for Slovak public and private sectors to address the reduction of environmental risks to public health. Under the previous centrally-planned economy, no negative value was placed on environmental losses; wastes carried no debt value. Worker health issues under extremely dangerous working environments were compensated for by providing incrementally higher wages for exposure and increased free time. Citizens living near polluting facilities did not have the right to know the potential impact of exposure for them and their children.

In the aggregate, activities which reduce the environmental risks to public health go beyond the human dimension of the transition to democracy. Demand-driven economics lead to protection of the natural resources of clean air, clean rivers, fresh water, and viable forests.

B. Critical Assumptions:

1. *Slovakia continues to integrate into the world, market-driven economy.* While an important assumption for many of USAID Slovakia's strategic objectives, this assumption is critical for a different reason in SO 3.3. If Slovakia were to turn to the east, many of the progressive, environmentally positive initiatives may be cast away. By integrating into the world market-driven economy, much of the progress toward cleaner and healthier work environments resulting from processes that protect the environment will be assisted by regulations tied to trade, for example the ISO-14,000 and entry to the EU and its standards. The market incentives to act in an environmentally sound manner may, in the long run, prove to be the best defense of the Slovak environment and its citizens.

2. *Slovakia continues to improve its environmental strategy including key areas of increased enforcement and fee and fine collection.* A logical assumption following from the above involves the continued development of an environmental strategy to address issues arising as a result of the dynamic environmental situations in Slovakia. Legislation, regulations and their enforcement and fee and fine collection will assure that Slovakia maintains the tools with which to support the environmental strategy. As a part of the environmental strategy, there shall continue to be areas of interest within the environmental sector where Slovakia can technically show progress without external assistance. The environmental strategy will continue to focus on the distribution of the technical and financial resources allowing for the maximum return on the technical and financial investments.

3. *The international donors and multilateral funding institutions accept as feasible the small country (i.e., small economy) projects.* Slovakia is a small country with a small economy. However, relative to larger countries with larger economies, its problems are no less important and worthy of funding. Slovak environmental initiatives should have the same possibility of being funded as those initiatives from larger countries. However, at present, the scale and scope of funding for environmental initiatives from many

international donors and multilateral funding institutions precludes funding due to the scale of the projects.

C. Casual Linkages:

The successful implementation of the USAID Environmental Working Group, one of a series of working groups proposed by the USAID Representative to Slovakia as a vehicle to maximize impact and avoid duplication among the USAID Slovakia grants, cooperative agreements and contracts, has contributed greatly to the development of SO 3.3: *Reduced environmental risks to public health*. The USAID Environmental Working Group will now serve as the core of the SO 3.3 team.

Two key intermediate results support SO 3.3: *Reduced environmental risks to public health*. These include: (1) public managers act to reduce environmental impacts on public health and (2) private sector managers act to reduce environmental impacts on public health.

IR 3.3.1: *Public managers act to reduce environmental impacts on public health* addresses the actions at the central, regional and local government level, including communities. At the government levels, the anticipated change will be apparent in legislation, policies or regulations. At the community level, the product generally is a change in behavior. Close, productive policy dialogue is critical to assuring a seat at the table when changes are proposed. It is worth remembering that this process of change is occurring at a time when all factors are in flux. Changes are needed because the young country of Slovakia is still addressing the transition from the Czech and Slovak Federal Republic legal, regulatory and policy system. Imposed on the relatively recent formation of a separate country is the transformation from the command-driven to the market-driven economic system. The core of the activity will be the Harvard Institute for International Development (HIID) cooperative agreement implementing the Central Europe Environmental and Economics Policy (C4EP) Project with support from the Environmental Training Project (ETP) and a buy-in to the Global Bureau Environmental Health Project (EHP).

IR 3.3.2: *Private sector managers act to reduce environmental impacts on public health* addresses the private sector contribution to meeting the strategic objective of reducing environmental risks to public health. By mid-1996, the privatization process will be completed in Slovakia. Many of the point-source contributors to environmental risks to public health have been or are about to be privatized. As these enterprises approach the market-driven economies of the West with their products, the ISO 14,000, as well as customer preferences based on actual or assumed information about the production of the good come into play. The Environmental Action Program Support (EAPS) Project activities to date will be folded into the HIID C4EP project, which will be implementing the contract as a sub-contractor. Along with the World Environment Center project, this will serve as the core of this thrust with the private sector.

Four intermediate results articulated under IR 3.3.1 support SO 3.3. These include: (1) increased awareness of environmental health benefits, (2) increased knowledge on how to reduce environmental risks, (3) increased collaboration between key health and environmental decision makers and (4) more effective mechanisms to provide financial resources introduced.

IR 3.3.1.1: *Increased awareness of environmental health benefits* will assure the public managers and policy makers in regard to the environmental risks to public health will be well informed as they develop or promote legislation, policy or regulations in this area.

IR 3.3.1.2: *Increased knowledge on how to reduce environmental risks* included the communities in the process as demonstrated by plans to reduce environmental health risks.

IR 3.3.1.3: *Increased collaboration between key health and environmental decision makers* will build on the success of the Slovak associations in the chemical industry (as supported by technical assistance of the World Environment Center) which have a mandate to reduce environmental health risks.

IR 3.3.1.4: *More effective mechanisms to provide financial resources introduced* refers directly to the implementation of the Slovak Environmental Revolving Investment Fund, which will play an important key role in providing funding for changes to be incorporated in the process of reducing the environmental

risks to public health.

Two intermediate results are articulated under IR 3.3.2 which support SO 3.3. These include: (1) financial resources increased to reduce environmental impact on health and (2) increased systems and technical capacity by companies to reduce environmental risks.

IR 3.3.2.1: *Financial resources increased to reduce environmental impact on health* will be an intermediate result of the technical assistance provided to individual companies and entities through the HIID C4EP program. The concept is that well prepared financial investment plans to assist the company to reduce environmental risks to public health while increasing efficiency of the overall operation will attract funding.

IR 3.3.2.2: *Increased systems and technical capacity by companies to reduce environmental risks* will be encouraged by expanding the number of local experts with the technical skills to address those technical steps needed to reduce environmental risks to public health.

PART II: PERFORMANCE ASSESSMENT

Table I - Performance Data
Baseline, Targets, and Actual Results

SO 3.3: Reduced Environmental Risks to Public Health

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 3.3	Reduced Environmental Risks to Public Health	Life expectancy increased	Definition: M (male), F (female) Unit: years	1993	66.5 (m) 75.3 (f)	69.5 (m) 77.4 (f)		70.3 (m) 77.8 (f)		70.9 (m) 78.2 (f)					
IR 3.3.1	Public managers act to reduce environmental impacts on public health	Number of new laws or programs which selectively deal with environmental health risks	Definition: Legislative or programmatic initiatives in 10 selected companies Unit: Number of new companies	0		1		3		3		2		1	
IR 3.3.1.1	Increased awareness of environmental health risks	Percentage of managers/opinion leaders aware of environmental risks to public health	Definition: Opinion survey Unit: Percent	10		25		45		70		80		85	
IR 3.3.1.2	Increased knowledge on how to reduce environmental risks	Percentage of selected communities with plans to reduce environmental health risks	Definition: Selected communities Unit: Percent	0		20		30		50		60		70	

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RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION* AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 3.3.1.3.	Increased collaboration between key health and environmental decision makers	Number of specialized, interdisciplinary organizations dealing with plans to reduce environmental health risks	Definition: New significant organizations Unit: Number	1		3		4		4		4		4	
IR 3.3.1.4.	More effective mechanisms to provide financial resources introduced	Revolving fund implementation	Definition: Revolving fund Unit: Number	0		0		1		1		1		1	
IR 3.3.2.	Private sector managers act to reduce environmental impact on public health	Percentage of targeted companies with more than 1,000 employees that have initiated programs dealing with environmental health risks	Definition: of 10 selected companies Unit: Percent	1993	10	30		50		70		90		100	
IR 3.3.2.1.	Financial resources increased to reduce environmental impact on health	Value of investments in 10 selected companies	Definition: Cumulative total Unit: \$US million	1994	0	1		2		16		18		20	
IR 3.3.2.2.	Increased systems and technical capacity of companies to reduce environmental risks	Number of consulting experts in the field	Definition: Unit: Number in ASPEK catalog	1994	60	80		100		120		120		120	

PART II

STRATEGIC OBJECTIVE

RESULTS REVIEW

SO 4.x

CROSS-CUTTING

PROGRAMS AND

SPECIAL INITIATIVES

PART II: PERFORMANCE ASSESSMENT

**Table I - Performance Data
Baseline, Targets, and Actual Results**

SO 4.x: Cross-Cutting and Special Initiatives

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual
4.0 UNIDO SMEs	Increased capacity to advocate policy change	Reliable system for collecting information	Definition: Unit: Number of surveys specifically undertaken by National Agency	1994	0	?									
		Ability of National Agency staff to analyze the data	Definition: Unit: Number of staff trained to gather and analyze information	1994	0	2		2							
4.1 USIA EFL Fellows	Improved Capacity for English Language Teaching	Teachers trained in EFL methods	Definition: Number of in- service teachers trained per school year Unit: number	1994/ 1995	1,050	1,000		1,000		1,000					
4.2 UNIDO PPCs	Identification of potential profit centers	Diagnostic studies for targeted enterprises completed	Definition: Unit: Number of enterprises diagnosed	1995	0	2		3							
		Economic performance for diagnosed enterprises improved	Definition: Unit: Profit in Slovak crowns	1995	?	10% increase		?							

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RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1996		1997		1998		1999		2000		
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
4.3 ABA/ CEELI Rule of Law	Professional Interests of the Legal Profession Better Defined and Advocated	Association of Slovak judges adopts judicial code and publishes position papers and statements on policy issues related to judiciary.	Definition: Judicial ethics adopted by ASJ Number of issues published Unit: Year/ Number	1995	12	20		Code of Ethics adopted 25		25						
		Clinical Legal education programs established at law schools	Definition: Unit: Number	1995	0			2		3						
4.4 PTPE ECESP	Participant Training Program for Europe and East European Scholarship Program	Participants trained in sectoral areas which support strategic objectives	Definition: Participants trained Unit: Number	1995 PTPE ECESP	45 27	45 27	59 18	45		45						
4.6 CRS Task Force	Increased capacity of the National Council SR as an institution	Parliament staff (Research and Analysis, Library and Automation Office) providing improved services to members of parliament	Legal Information system available to all deputies	1995	No	Yes										